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SINESS, POLITICS
ID ECONOMICS

NATIONAL BUSINESS REVIEW

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Inside

Ban on discovering if TE901 was licensed

Das Dalgety . . . reluctant.

by Allan Parker and Warren Berryman

NATIONAL Business Review has been barred from access to a Ministry of Transport register of air licences that could disclose whether Air New Zealand's ill-fated TE901 Erebus flight was properly licensed.

An *NBR* reporter produced a written legal opinion stating that the Air Services Licensing Authority register of air services licences, held by the Secretary of Transport, is a public document.

But the ministry's head office solicitor refused to show us the register, which contains details of air service licences held by Air New Zealand and other air operators.

The solicitor said he disagreed with our legal advice and maintained that *NBR* — representing the general public — had no right to inspect the register.

"Our view is that persons with o special interest would be permitted to see the register," he said.

Examples of "persons with a special interest" included potential competitors for existing operators and travel agents making an arrangement with a carrier and trying to find if the carrier was a legitimate operator.

He did not consider *NBR* in particular, newspapers in general, or the general public, have the required "special interest", nor that the register is a public document.

But, he admitted there was no past case history to support his decision.

The *NBR* action is the first time such a request has been made, although he said the legal consortium acting on behalf of a large group of Erebus victims' families and dependents has also asked if Air New Zealand had a valid licence for the Erebus flight.

If not, the airline might be open to prosecution by the Ministry of Transport and families seeking damages against the airline could argue that the $42,000 liability limit on Air New Zealand does not apply.

NBR wanted to inspect the register to find out if Air New Zealand had a licence for the flight that ended in the deaths of 257 people.

All domestic flights must have a current air services licence, issued by the Air Services Licensing Authority, which is a separate legal body deemed to be a commission of inquiry. But the ASLA is closely linked with the Ministry of Transport.

ASLA licences are entered in the register of air services licences, which is kept by the Secretary of Transport.

The Air Servicea Licensing Authority Act 1951 is silent on the right of public inspection of the register. In other words, it neither says the public has access, nor does it specifically deny such access.

When *NBR* first approached the ministry to see the register, we were told it was not a public document. We then sought a legal opinion.

According to that opinion: "In a case such as the present one where the statute is silent as to whether the register may be inspected, that matter (the right of inspection) must be determined from a consideration of the statute itself and if necessary the legislation connected with it.

"In that respect we note that section 51 of the Air Services Licensing Act provides that the Air Services Licensing Act provisions are in addition to other legislation including the Civil Aviation Act 1964.

"Reference to the Civil Aviation Act 1964, and regulations made under that Act, make it clear that many persons are expected to be familiar with the provisions of aviation licences; and indeed in some casea it may be an offence for a licence-holder to fail to comply with the requirements of a licence."

From this, the opinion concluded, if it can be demonstrated that it is necessary for a member of the public to be familiar with the conditions of a licence, then the public must be entitled to inspect the register and a general right of public inspection and search can be said to exist.

"There are at least three clear reasons why a public right of inspection must, in our opinion, exist. These are:

● Many airline tickets contain an exemption clause which provides that the airline operator is not obliged to provide a service which is not in accordance with the licence. For example, part of the conditions of a typical Air New Zealand ticket are that the company 'reserves the right to refuse carriage to any person

Continued Page 12

Explorer's disclosures may have breached Act

by Klaus Sorensen

BUDDING offshore explorer, New Zealand Oil and Gas Ltd, may have breached the Companies Act.

NBR understands the Justice Department commercial affairs division is looking at written material produced by the company for a press briefing two weeks ago, to see if it contravenes the Companies Act section relating to the advertisement of a prospectus.

But the explorer, which ia about to float a $20 millioo issue, will not be the first to fall foul of the Act's section 48(B).

Two yeara ago several finance companies broke the strict requirements of this section with advertisements for debeoture issues. The Justice Department prosecuted to emphasiae that the sectioo must be strictly adhered to.

NZ Oil and Gaa held a press briefing on June 23 in Wellington, where it confirmed it was making a public issue. It produced background information on ita plans.

The company held a function that evening for inatitutional investors, but *NBR* understands the department is concentrating on the documents issued to the preas.

The institutional briefing apparently was verbal only.

Section 48(B) relates to "certain advertisements deemed to be prospectuses".

It defines advertisemeot as "any notice, circular or other document" and states that such documents shall not be deemed to be a prospectua "if it coontaina no informatloo or matter other than any or all of the following matters", namely the number and description of shares offered or intended to be offered, the terms of the offer, the oame of the proposed company and its paid-up share capital, as well as a statement on the general nature of the business, names and addresses and occupationa of the directors, brokers and underwriters.

According to the Act, "every auch advertisement as aforesaid that does not conform to the requirements of sub-section 1 of this section shall be deemed for the purposes of this Act to be a prospectus and all the provisions of this Act and all other enactments and rules of law aa to the conteots of prospectuses and as to liability io respect of statements in and omissions from prospectuaes, or otherwise relating to prospectuses ahall apply and have effect accordingly."

Continued Page 5

Albatrosses, cows, people safe — smelter report

by Ann Teylor

A ROYAL albatross colony, remains of people seen by Dumont D'Urville in 1840 end "discernible dental mottling" in cows will be untouched by the 200,000 tonnes of sluminium to be produced on their doorstep every year.

The 300-psge environmentsl impact report prepared by South Pacific Aluminium Ltd to concur with Nstional Development Act requirements did, in its eight-month gestation period, find out a lot about the heads of Otego Harbour.

Urtica ferox — the common nettle — will aid regeneration on the land which will accommodate the major user of our "electricity surplus". Twenty-four perspectivea illustrate the visual impact of the generstor of 2 to 3 per cent of our gross national product.

The compsny intends to be "both a good neighbour and s good employer". Close neighbours will have to be removed from around the site but the company intends to "cushion" this impsct by purchasing properties at sbove the market price.

A $20 million wage bill, into the pockets of 1000 to 1200 employees st pesk construction time, will bring new people (570) to the srea, slow population decline and "tend to alter" the ageing Dunedin profile.

One of the "significant social implicstions is thst of unrealised expectations; hoped-for booms, which when not realised, result in disappointment and frustration" sre guarded sgainst in the compsny's report.

Business confidence will increase, demand for maintenaoce and servicing will increase, slack capacity will be taken up and Dunedin will live happily ever after.

The report addresses itself to site specific environmental impacts and social aspects specific to the Dunedin area. But the Government's decision to sell electricity for the smelter was based on "the net national benefit . . . In particular the potential of the industry to earn net foreign exchange" says the report.

"Local snd international observers recognise that relieving this balsnce of psyments constraint is essential to rekindle economic growth, reduce unemployment, and reverse the net outflow of people."

To these ends the gross foreign exchange earnings are expected to be $350-400 million a year, a figure which is a long way from Treasury estimates, supplied two weeks sgo in Parliament, that when the smelter is producing in 1988-89 it will generate $150 million, in 1989-90 $155 million in foreign exchange.

The report spells out the attraction of New Zealand to the project's sponsors.

- A secure and competitively-priced electricity supply is available;
- There is access to near-by slumina supplies from malnland Australia;
- Existing smelters hsve established that distance from the main world markets is not a comparative disadvantage;
- A stable economic snd political climate prevoils.

"A key factor in the siting of new aluminium smelters is a relisble source of electricity at an acceptable price" says the report which does not address itself to what has been the most contentious issue — the price of the power.

"The project came obout in response to a Government development strategy to utilise electricity to create growth in exports. The ovailobility and price of power and whether the project is in the overall national interest — these matters lie properly within the ambit of Government policy, and are not discussed here" says the report.

It then goes on to quote *Growth Opportunities in New Zealand* 1979: "At least 5000 GWh of electricity could be avsilsble . . . for certain industrial developments st a concessional price.

"The concessional rates are negotiable and will be available to companies that locate in the South Island and that install new plant which usea more than 25 GWh of electricity per annum."

The second smelter and the third potline at Bluff will absorb all the excess capacity. The electricity division of the Ministry of Energy, in answer to concern expressed by Electrical Supply Authorities Association on the project's effect on the bulk electricity tariff, prepared o study.

The Coalition for Open Government — assiduous interpreters of power prices — the study produced figures which support Finance Minister Bill Birch's advocacy of the second smelter.

After detailed discussions with departmental officials, COG concluded that the department "expects to subsidise the power by $... million, which will be financed almost entirely by borrowing from Government . . . burden will be borne by future generations of taxpayers rather than electricity consumers".

COG's report says the department's figures have been seen in their true light: a description of several possible ways of meeting the cost of developing aluminium smelting in this country on a heavily subsidised basis".

Continued Page

The week in brief

A CABINET decision to "fast-track" the Arsmoana smelter was challenged in two actions before the Court of Appeal. A declaration that the decision was outside the scope of the National Development Act was sought by environmental groups.

THE Australians' requirement that trans-Tasman travellers use passports came into force. A few would-be emigrants were refused seats on a plane for not having passports. They may have to wait in the passport queue, with a backlog of 28,000 applications, and 6000 new ones being received weekly.

TOTAL claims from the families of Erebus air crash victims are expected to be close to $80 million.

EMPLOYERS stalled the drivers award talks by demanding that a final report of the committee which has been reviewing the award be presented before talks continued.

LIQUIGAS circumvents bans on carrying LPG on Cook Strait ferries and proposes to use a private barge to carry LPG to the fuel-starved top of the South Island.

JOURNALISTS' prowess being checked out by the Police. A Cabinet paper on the Commission for the Environment and the police's own terrorist plans both got into the "wrong" daily newspaper hands.

TAX reviews in "the shortest possible time" were called for by the Planning Council which suggested private and public sector task forces be established.

'Name a price' Whitehaven asks

by Warren Berrymen

THE mystery buyer who has thwarted Whitehaven Holdings Ltd's takeover bid for New Zealand Land Securlties says he was asked to "name a price" for the NZLS shares he and his associates hold.

However, the minorlty buyer, now tevealed as Auckland company director Oweo Mills, and Stanley White, secretary of the New Zealand Shareholders Co-operative and long-time opponent of the Whitehoven bid, will instead formally requisition an extraordinary meeting of NZLS shareholders.

They wsnt to question the three directora of the NZLS group who, under the Whitehoven banner, tried to take over the property compony.

Convinced that NZLS was worth more than Whltehaven said it was, Mills topped the 25 cents a share offer price by 10 cents and captured more thao 10 per cent of the shares.

This move prevents Whltehaven from attaining the 90 per cent holding required for compulsory acquisition of the remaining shares.

Last week Mills walked into a meeting with Whitehaven directors Bruce Buxton, John Martin and Richard Solomon, accompanled by White.

According to Mills and White, they asked for two seats on the NZLS board to represent minority shareholders and Whitehaven directors responded by asking them to name a price for the shares they held.

Mills and Whlte will now requesl an extraordinary genersl meetlng to question NZLS managers Martin and Solomon about the company's past property transactiona aod the present profit levels of its two geristric hospitals.

White hopes to gain support from the estlmated 250 NZLS shareholders who hsve not sold out to Whitehaven.

Meanwhile the NZLS directors sre facing possible legal action from snother front. NZ Land-GUS Ltd, a company half owned by NZLS, has been wound up by the Auckland High Court, on the petition of Papatoetoe lawyer Raymond Kendall.

NZ Land-GUS, a $100 capitsl company owned 50/50 by NZLS and GUS Properties Ltd, of Christchurch, mortgaged 39 acres of industrial land near the Manukau Harbour to Kendall for sbout $200,000.

Kendall, who left money in when he sold the land to NZ Land-GUS, was secured by a second mortgage.

NZLS and GUS, as first mortgagees, put the property up for first mortgagee sale two months ago on the grounds that NZ Land-GUS, which was owned by NZLS and GUS, defaulted on payment to its parent companies.

NZLS and GUS bought the property which they valued at $297,500 at the mortgagee sale.

This left Kendsll out in the cold. So he petitioned the court to wind up NZ Land-GUS.

The court ordered NZ Land-GUS wound up on June 17 and Aucklend's official assignee, Thomas Paine, was oppointed provisionol liquidator.

A creditor's meeting will be held on July 16 at which it is likely that Kendsll csn appoint a liquidator of his choice.

Kendall's legal advisers told *NBR* that NZ Land-GUS owed Kendall $199,500 and that legal moves were in train to sue the directors and shoreholders of NZ Land-GUS to recover this money.

$83.5 million floating through system

THE sqoeeze has gone onto New Zealsnd's equity investors — to the tune of $83.5 million.

That's the amaunt of money currently being saught through the sharemarket in the form of new floats and premium issues as campanies move to cash in on the high premiums available fallawing the boom in the sharemarket over the past year.

Last week NZ Forest Products put the hard word on its shareholders to the tune of $35 millian through a 1-for-7 cash issue and market sources expect this issue will slaw the market's mamentum and dip into the pool of money set aside for the upcoming public floats.

But contrary to some suggestions, the NZFP "big hlt" is unlikely to cause o full scsle institutional sellout.

Most institutions will probably just draw back from the market for a while to digest the issue.

But public companies are attracting investment monies at a much faster rate than last year. Market sources are beginning to wonder when the investment pool will run dry.

New listings last year brought in $56.2 million, rights issues $73.53 million and non-renounceable issues, sbout $9.9 million.

Issues and floats, filled and sought for the first six months of 1981, total well over $130 million.

NZFP shareholders will find the 1-for-7 cssh issue hard to turn down. If NZFP share prices hold at more than $4, the purchase price of $3 leaves the investor with at least a dollar gain.

'Think big' breakeven

"THINK big" will break even at the end of the decade, according to Treasury estimates.

The $2 billion to be spent up to 1988 in foreign exchange on the eight projects described will have returned that amount in earnings and savings by 1990, according to the estimates.

But during the 10-year period the balance of payments canstraint will be severely aggravated. In the 1984-85 year a tatal of $1645 million will have been apent on the projects which show a return of only $175 million.

High in the decade's foreign exchange earning stakea are the electrification of the main trunk line, the ammonia-urea plant, the third potline at Tiwai and the stand alone methanol plant.

The synthetic fuel plant estimates — which do not consider cost over-runs and work on the assumption of $750 million coat, rather than the generally acknowledged $1 billion — show that on $680 million in net foreign exchange losa only $350 million will be incoming before the end of the decade.

The aecond aluminium amelter — net foreign exchange loss of $455 milllon up to 1988 — shows a gain of $305 million by the end of the decade.

The week

Cue gives go-ahead for $4 million share float

by Klaus Sorensen

AUSTRALIAN oil and mineral explorer Cue Minerals has given the go ahead to its Wellington sharebroker to float a $4 million oil and coal explorer on the New Zealand sharemarket.

The new company will be called Cue Energy Resources NL (no liability) and the prospectus, prepared by Jarden and Co, will hit the streets in about two weeks time.

The company will issue 16 million partly paid shares to the New Zealand public as well as 8 million options, at 1 cent each, in the ratio of one for every two shares subscribed.

The new company will have two local directors in the form of Nelson businessman Bob Gunn, and top mining industry figure John Lawrey.

Gunn is the deputy chairman of Goodman Group and also something of an entrepreneur — he bought up part of the crashed Gollin group in the early 1970s then profitably disposed of the various divisions — while Lawrey is the secretary of the Mineral Explorers Association as well as being a Brierley Investments director and former managing director of the gold dredge operator Amoil.

Though the prospectus is still with the printer, Cue sources made details of the new company available to *NBR* last week.

Jarden and Co has received all the necessary clearances and consents, and apart from being the organising broker the firm will also be the underwriter (several institutions will sub-underwrite the issue).

Cue Energy Resources will issue 18 million 50c shares paid to 25c, with 2 million of the shares being taken up, for cash, by the promoter, Cue Minerals NL.

The remaining 16 million shares will be available to local investors at 25 cents and they will include the right to take up the transferable option in the ratio of one option for two shares subscribed for.

But while the options are transferable (like rights to a premium issue) subscribers to the options must take up shares as well.

The 1 cent options may be exercised (converted into shares) at any time over the next five years by paying up the remaining sum, such as 24 cents where the ordinary shares are paid to 25 cents.

The ordinary shares will be subject to a series of calls over a period of time with the first call of 5 cents a share being made in some 18 months.

Cue believes that making the new company a no liability concern will be attractive to investors. In the event of a call on shares shareholders in a limited liability company are obliged to provide the amount required. With a no liability company shareholders do not have to pay up when a call is made.

Cue maintains the partly paid concept is "more appropriate" to a mining company, as the monies subscribed for will be spent over a period of time, "there is no point in having a great deal of money sitting in the bank".

In addition to the shares it will subscribe to, the promoter, Cue Minerals NL, will receive 3,512,000 shares as consideration for the various leases it holds.

This will mean Cue will hold 5.5 million of a total of 21.5 million shares (26 per cent), but there will be a two-year vendor selling restriction on the shares advanced for the leases. Cue will also hold 1 millon options — out at a total of 9 million.

The new company will hold interests in six petroleum permits. In New Zealand it will have a 50 per cent working interest in the Taranaki basin offshore licence No 38122, a 0.5 per cent overriding royalty (similar to a free carry interest) in each of licences 38121 and 38125, and a 25 per cent working interest in onshore licence 38065 in North Canterbury.

In Australia it will hold a 10 per cent free carry interest in A to P (authority to prospect) number 205 in the Surat Basin in Queensland and a 5 per cent free carry interest in licence T/14P in Bass Strait.

The company also has an interest in a coal and oil shale interest licence in the Nevis Valley in central Otago, and has made an application for a coal concession at Wedderburn in Otago.

Like the New Zealand Oil and Gas issue, the shares subscribed for will entitle the holder to tax deductions of one third the amount subscribed.

But this allowance only applies to some types of exploration and not coal — so Cue Energy Resources will use the money advanced by Cue Minerals for its shares, for the coal side of the business, thereby ensuring that the $4 million subscribed for locally will be used for oil and gas exploration, and therefore tax-deductable.

On a 60 per cent tax rate the tax deduction averages the net cost of the Cue shares down from 25 cents to 20 cents, while in the NZ Oil and Gas float the average cost of the 50 cent shares falls to 40 cents on the same tax rate.

The tax offset will also be available through the options, when they are exercised and converted into shares.

From Page 1

The fine for failing to conform to the requirements of a prospectus is a maximum of $1000.

The question which arises in the NZ Oil and Gas case is rather technical, but it seems that if the background papers issued to the press are deemed to be advertisements as defined by section 48(B), the company has provided more information (such as details of tax deductibility of the shares subscribed for) than the section allows.

The affair is complicated by the fact that replacement legislation is in the pipeline, and so the department could find itself making a prosecution under an Act which is about to be superseded.

The department would also have to produce "evidence of publication" according to the source, and might run the risk of making a publicly (and politically) unpopular prosecution on a "technicality".

The irony is that Australia has legislation which exempts press releases from the law relating to prospectuses.

Network Communications prepared the background papers. Its Wellington executive, Grant Common, told *NBR* last week he was unaware of any Justice Department action.

He said the briefing and the background material had been prepared after careful consultation with the client and its advisers, and he felt the suggestion of a prosecution was unfair when all they had set out to do was to "inform the market".

He said one of the main reasons for the briefing was to overcome considerable speculation in the market. "We felt we were doing the responsible thing by taking these steps to inform people about the float, and I believe it would have caused greater problems in the market had we not held the briefings."

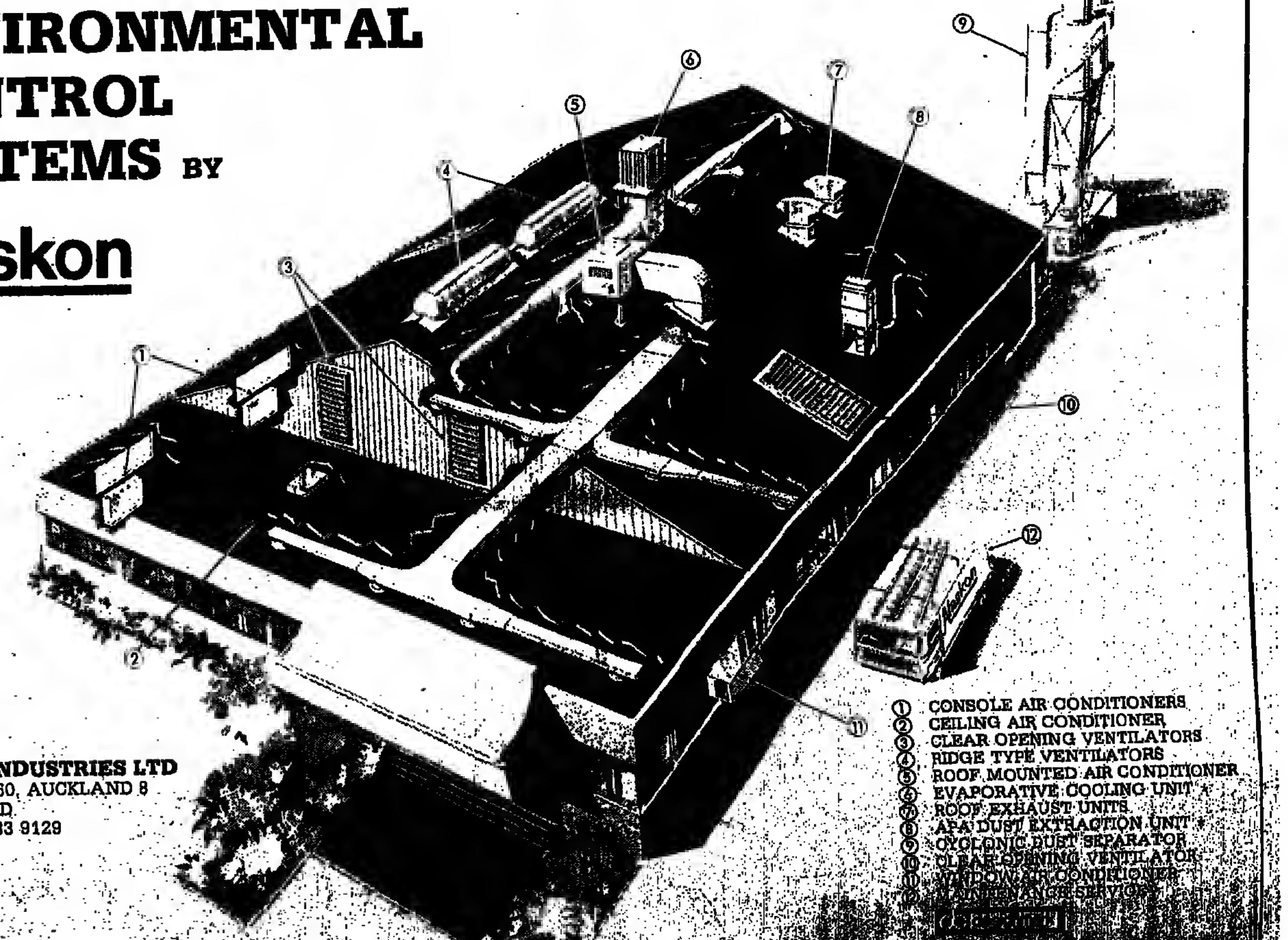
NZ Oil and Gas secretary Tony Frankham told *NBR* he thought it was "debatable" whether a breach of the Act had occurred.

He said the directors were aware of intended changes to the Act, but felt it was their over-riding responsibility to ensure that the market was informed.

But as Mineral Resources directors, they also had a responsibility to those shareholders to counter the considerable speculation that had taken place, and the subsequent rise in the Mineral Resources share price.

"The directors believe they acted responsibly and beyond reproach," he said.

But the good news for NZ O and G came at the end of last week when the company received confirmation from its tax deductibility and also Overseas Investment Commission consents.



Comment

Editorial

AIR New Zealand's prestige took a battering in the wake of the Mt Erebus disaster. Revelations of administrative shortcomings shattered public confidence in a national carrier which many thought could do no wrong. They now know otherwise — and no thanks to the civil aviation division, whose record of unquestioning confidence in the airline and failure properly to police its operations amounts to an attitude of unseemly deference, if not reverence.

The special State Services Commission committee, which reviewed CAD's role in the Erebus disaster, found "significant shortfalls in the overall performance of the division in relation to Air New Zealand's Antarctic operations". These related mainly to "regulatory and inspectional" functions.

CAD was more sharply rebuked in the report of the Royal Commission of Inquiry. It asserted that the division was always too ready to approve whatever was put to it by the airline. "It seems as if the division adopted as its controlling policy the opinion that the operational proposals of Air New Zealand would always be satisfactory and did not require close scrutiny," the report said.

It was possible "that the sheer size of the airline has come to overshadow and dominate the personnel of the division".

While CAD seems absurdly reluctant to regulate the airline, it had no qualms about vigorously prosecuting (just as absurdly) one of the airline's pilots. CAD took what has been called a scattergun approach in levelling all the charges it could against the pilot after a landing incident at Palmerston North. The judge exonerated the pilot and castigated the department, explaining that he had great difficulty in trying to find out why the charges were laid. Such was CAD's laxity that the pilot had not even been interviewed or asked for an explanation.

CAD has also been criticised in recent weeks by the Ombudsman for its mishandling of an incident in 1975, when the pilot of an Air New Zealand DC-8 passed low over the Wellington suburb of Newlands. The pilot was found to have suffered an injustice in the way CAD inquired into the incident. There was "an absence of proper authority for the inquiry with the result that the normal safeguards which apply when a person's professional competence is being investigated and may be subject to damaging criticism was not observed," said the Ombudsman.

CAD is a somewhat limp arm of the Ministry of Transport, which is supposed to enforce the regulation of the air ticket business. Its success can be measured by the extent to which international airlines with representation in this country have become involved in offering cut-rate deals. The regulations — promulgated under the Civil Aviation Act — prohibit sales or promotion of fares not approved by the MOT (in effect, all fares below standard rates and those of non-IATA discounters, such as Laker Skytrain). The market is thus controlled by Government regulation and policed by a Government department. But it so happens that the state airline is among the companies breaching the regulations. And the ministry's relationship with the airline raises the strong suspicion that the law is being flouted because the Government is reluctant to prosecute the state carrier, while prosecuting other airlines would be seen to be grossly unjust.

Civil Aviation Minister Colin McLachlan, presumably, is concerned at the extent to which control of the market has collapsed (as evidenced by NBR's story last week and the Eyewitness disclosures). But in a statement from his office, we were told he had not received any information on fare discounting; "No definite evidence has been passed to him through the ministry." The public can be assured only that discounting "is continually under review by the department; it has been looking into it and the Minister has commented on it in the past."

We were told the Minister believed the Travel Agents Association had been collecting evidence and passing it to its airline steering committee, but no such evidence had been passed to the ministry or the Minister believed the Travel Associatio[n] had been collecting evidence and passin[g] to its airline steering committee, but [no] such evidence had been passed to the ministry or the Minister. Until the "there is not a great deal we can do. Un[til] the evidence has been presented, it is [dif]ficult to act." The idea that the minis[try] itself go out and investigate doesn't se[em] to have occurred to McLachlan.

Only last month, he told Parliament [that] Air New Zealand was being kept o[n a] "tighter rein" following publication of [the] State Services Commission report on [the] Mt Erebus crash findings. Increa[sed] liaison between the department and [the] airline would ensure that civil aviation [was] kept "better informed than in the pa[st]." But not as well as the news media can k[eep] him informed, it seems.

Still, they seem to be a bit short-sta[ffed] in the ministry just now and the Minis[ter] hamstrung. Perhaps helpless is a be[tter] word. The statement from his office a[lso con]fesses: "It is a bit difficult to act whe[n] heads of department are away." They [will] be asked to look into the allegations o[f] ticket irregularities "when they get b[ack] definitely."

But as McLachlan assured us after [the] Friendship crashed into the Man[gere] mudflats, the controversial rescue [boat] had oars as well as motors. Surely [the] department has deputies as well as he[ads].

— Bob E[dlin]

Without word of a lie

Onions for the asking

ONE of umpteen questions Labour's John Kirk has posed to intrigue listeners to Parliamentary question-and-answer sessions concerned the RNZAF's new Boeing 727; he wanted to know if it would be used to fly Prime Minister Rob Muldoon to the South Pacific Forum at Vanuatu in August, and whether to facilitate that, there were plans to rush the refurbishing of the aircraft to meet the deadline.

The answer from Defence Minister David Thompson is that the Boeing will not fly Muldoon to Vanuatu and there is no intention to accelerate the refurbishing.

As a supplementary question, livewire Winston Peters did his thing for the Government by inquiring if this had been one of the many "inane" and "time-consuming" questions that were demanding an unreasonable degree of bureaucratic research to provide Ministers with answers. Peters, no doubt, was eagerly waiting to be entranced by the answer to the next question, posed by Government colleague Paul East, which required the Minister of Overseas Trade to reveal the total amount of onion exports in the last year, how much overseas funds those exports earned and whether there had been any growth in onion exports in recent years.

Ao-tea-rogues?

YOU know the Aussies are pretty upset at prospects that their Commonwealth Games in Brisbane next year are under threat by this month's Springbok tour when they start referring to New Zealand as "The Land of the Wrong White Crowd".

Brockie's view

Your cue, Rob

LABOUR's Geoff Palmer struck another blow [fo]r public enlightenment last week when he call[e]d for greater disclosure of Government [e]conomic and financial data.

He advocated publication of forward estimates of Government expenditure and revenue, for example, and publication of a tax expenditure budget so that people can see exactly how much is spent on items such as subsidies. (As things stand, we are kept very much in the dark about how much the Government is subsidising businesses for their export performances).

Palmer also wants publication of the three-monthly reviews of the economy prepared by Treasury.

But Palmer may be upstaged, because if he's as good as his word — something none of us would dare question — Rob Muldoon will be acting on Palmer's ideas. Addressing the Sydney Chamber of Commerce in January, Muldoon said: "Part of the art of government in a modern democracy is the ability to use mass media [to] communicate the facts of economic life to [the] voting public."

Knowing crafty old Rob as we do, we are su[re] we can expect to see some bold reforms [an]nounced in this week's Budget (which will nea[r]ly force our old mate Geoff to come up wi[th] another line of attack for his Budget speech).

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Comment

Thinking both big and small — the Kiwi compromise

by Brendan Thompson

IN planning for the country's future development, we have to face two basic facts. As Hugh Fletcher keeps reminding us, New Zealand business has to be big if it is to compete internationally.

Equally true is that New Zealanders generally don't like big business. They don't trust it and would rather work for a small business or, better still, run their own.

We seem to face an impasse. Either we are dragged reluctantly into the 1980's world of international big business and remain competitive or else we stay small and slip further and further down the international league of income per capita.

Fortunately there is a way round this conundrum, and it is very much a New Zealand way.

The answer lies in our history, just waiting to be adapted to the challenges of the 1980s. The New Zealander's preference for running his own ship or being part of a small business is a long-standing tradition. It is a tradition rooted not in folklore, but in the cold hard world of economics.

Sir Jack Harris . . . pointed way.

Ninety-nine years ago the first cargo of New Zealand frozen meat arrived in London. With that shipment a new era dawned for New Zealanders, an era in which prosperity came to be based on a partnership between big and small.

The small men and their families produced huge quantities of meat and dairy products for the world market. Small organisations, or organisations owned by small producers, did some of the processing. Big organisations did the rest of the processing and provided finance, technical assistance, transport and marketing skills.

Big organisations, not big business: the distinction is important. Big organisations include the Government, which has played a key role in the development of New Zealand. Its job has been to help the small man produce.

When necessary the Government has provided him with land, finance, free technical assistance, quality control and a transport system. Through the producer boards it has also helped the small man to organise his marketing. In short the government has been the small man's friend.

The tradition is strong, practical and popular. We need to adapt it to the 1980s and beyond.

First we must abandon the philosophy that the Government should leave as much as possible to private enterprise. Instead the Government should aim to assist private enterprise as effectively as possible.

It should do all that it has been doing for farming in the past, but on a wider scale. Admittedly this will eventually mean spending more taxpayers' money, but the greatest contribution the Government could make could be entirely self-supporting and could even make a profit.

New Zealand urgently needs a rapid increase in exports. We have the capacity, the skills, the people and the products. Sir Jack Harris has pointed our how many of our weeds would make valuable exports. What the small producer needs most to join the market is information and markets.

There must be thousands of New Zealanders who would be willing to set up small businesses provided they could be sure of markets and provided they did not have to service those markets.

I know of New Zealand businessmen who have developed a thriving export trade without any effort on their part whatsoever. Their products have been such good value that their reputation has spread by word of mouth. Agents have come knocking on their doors asking to sell their products. Think what these businesses could sell with a little aggressive marketing!

The opportunities are almost limitless, yet they are going begging because most small producers are interested in producing, not marketing. They can make a comfortable living without the hassles of marketing themselves or finding a reputable agency to do it for them.

This is where the Government can help private enterprise in a big way. The Export-Import Corporation should be expanded into a major marketing organisation for the products of New Zealand firms, small or large. Small producers could then take advantage of the undoubted economies of scale in marketing.

Large size makes specialisation economic. Take a problem like language. The world's most aggressive exporters tend to believe that the best language in which to do business is that of the customer. A small producer aiming to export to several countries, each with a different language, cannot hope to compete with big foreign firms on this score.

They can afford to employ specialist linguists, but that is not economic for the small producer.

An expanded Export-Import Corporation could employ people who specialised in selling in a particular country. They would speak the local language, be thoroughly familiar with the market and all its idiosyncracies, and provide the constant personal contact that is so essential to successful selling in markets like Japan.

The Export-Import Corporation could also create an image of quality and value for money, under which New Zealand products could be promoted. All this is an almost impossible order for the average New Zealand producer. Experts employed by the Export-Import Corporation could do it much more efficiently.

By going still further, the Export-Import Corporation could overcome another barrier to New Zealand exports. I have a file of cases where export orders have been turned down because they are too big for the producer concerned to handle. To fill them, producers would have to abandon their present customers with no guarantee of further orders in the future.

The risk is too great. It seems ridiculous that individual producers have to decline such orders when the unused capacity exists throughout New Zealand to fill them. An expanded Export-Import Corporation could spread the risk. It could contract to fill the orders and then subcontract them throughout New Zealand.

The expanded Export-Import Corporation should not confine itself to marketing products already produced here. It should also act as an entrepreneur, constantly seeking out new opportunities for profitable exports and publicising them in New Zealand.

A recent Otago trade mission to Japan was surprised at the wide range of New Zealand products which could be sold there. This information should be available to every potential New Zealand producer. Small producers cannot be expected to seek it out for themselves. The Export-Import Corporation must do it for them.

Encouraging the small producer would do more than just increase our exports. It would also provide a useful form of insurance for the future. Rapid change seems imminent.

If we are to adapt with as little suffering as possible, we must have a flexible economy. Small is not only beautiful. It is also flexible. If a large factory or processing plant is automated or becomes obsolete, the social and economic repercussions in the immediate area can be disastrous.

As a result, there is considerable pressure to retain the *status quo*. This provides jobs in the short run at the probable sacrifice of jobs in the long run. Adjusting to change is far less traumatic with small enterprises. There is less resistance to change and prospects for future growth are enhanced.

Expanding the Export-Import Corporation would make small producers in many industries as viable as they are in farming. It would capitalise on what has become a popular feature of New Zealand economic life. And it could be done relatively cheaply.

Apart from an initial Government investment, the corporation would be expected at least to support itself on income derived from its trading.

The need is urgent, too urgent to leave to private enterprise alone. The Government must assist private enterprise every way it can to export us back to prosperity.

An expanded Export-Import Corporation promises to be a cheap and very effective form of assistance which takes the best from both big and small. It's well worth a try.

Brendan Thompson is an economics lecturer at the University of Waikato.

Letters

Importing TV commercials

GREV Wiggs' article "Oz to the rescue in TV commercial imports row" (*NBR*, June 1) is based on misconceptions that lead to an oversimplification of a complex issue.

Firstly, the Australian ban on New Zealand-made television commercials has not been lifted entirely but only for a trial period of one year.

Secondly, the voluntary code of practice has not been abandoned.

Thirdly, that a "row" exists over television commercial imports.

Grev's article presupposes the advertising industry is made up of partisan forces who are in opposition to each other. This may have been the case in the past, but a new rationale has taken place with members of the 4A's, ANZA and the film and video makers of New Zealand, realising their interdependence and pulling together for the betterment of the advertising industry within this country.

It was this realisation that led to the establishment of a code of practice.

Accordingly, representatives from the 4A's ANZA, the New Zealand Federation of Independent Film, Video and Sound Facilities, BCNZ, NFU, New Zealand Film Commission, as well as the Ministers of Broadcasting and Tourism and Publicity convened meetings to establish a system whereby the largest possible use of New Zealand resources can be exercised for the benefit of the New Zealand advertising industry.

All parties agreed to formulate a voluntary code of practice and thus avoid copying the Australian example of imposing a ban on overseas commercials. Indeed a number of categories of overseas commercials are allowed ready access to the New Zealand market.

At the same time and with the full knowledge of the advertising interests Government continued their trade negotiations with Australia; a part of that overall plan being to seek entry for New Zealand made television commercials.

The Australian Broadcasting Tribunal has now agreed that access be granted to New Zealand but conditionally, for a period of 12 months, during which time the incidence of New Zealand commercials being transmitted in Australia will be monitored.

Hardly a complete triumph but an opportunity nevertheless for the highly successful commercial makers of New Zealand to expand their market. After all, New Zealand film and video production houses have chalked up a distinguished list of international awards during the last few years and this without exercising the protective measures of a ban.

It is this very ability that has led advertising agencies to recognise the merit within New Zealand and thus increase the percentage of locally made commercials. Regrettably many of these commissioned projects have been taken to Australia for film processing and subsequent video post production, to the detriment of local facilities.

If the advertising industry is to expand, local facilities must be given the opportunity of producing the high budget complex commercials and thus utilise the sophisticated equipment and talents available within this country.

Both film and video houses within New Zealand are internationally acclaimed and this is being increasingly recognised by our own advertising agencies.

One such video facility, Vid-Com Ltd, established by NZ News Ltd some eight years ago (and not *acquired* as Mr Wiggs erroneously states) processed and post produced colour commercials for the Australian market during that 12-month period before Australian television was fully colourised. During that time Australia temporarily lifted their ban to gain useful colour experience from New Zealand.

Since then more than $3 million has been invested in equipment to create a film and video facility recognised as the equal of any in Australia.

The film processing division was custom-built with the most up to date technology and as such established as a viable alternative to the National Film Unit. Regrettably the Government 40 per cent sales tax on cine film has directly affected their profitability as Australian film laboratories using export incentives can offer substantial inducements to encourage New Zealand film-makers to have their film processed in Australia.

While there, the subsequent conversion to videotape can also be completed.

These are some of the factors that have led to the development of the voluntary code of practice. Negotiations that have taken place have been aimed at securing a better deal for the New Zealand film-makers, production houses and talent and thus provide a better sevice to advertising agencies.

The former Minister of Broadcasting, Hugh Templeton, did threaten legislation unless there was a co-operative attitude by the New Zealand advertising industry. The fact that all parties had convened of their own initiative was surely evidence of an intention to be co-operative, and the desire to move forward and build a bigger and better industry that has made people realise the need to look inwards as the best means of development.

Eric F Price
Vice-president
New Zealand Federation of Independent Film, Video and Sound Facilities

The article referred not only to the current situation of television commercial production but reported the continuing debate conducted over the last two decades. It is true that the growing proportion of work placed with New Zealand production houses is a vote of increasing confidence.

Nevertheless, agencies have always fought hard for the right to buy in a free market when the best considerations of the client dictated that course.

Even the draft code of ethics permits the importation of commercials "which require digital video effects, animation or film optical effects not accessible within New Zealand" and also legislates for a situation "where it is impossible or impractical to process a filmed commercial in New Zealand", demonstrating that constraints can still be experienced in New Zealand production.

Mr Price states that the code of practice has not been abandoned. It is certainly not being implemented and the Minister of Broadcasting has advised all parties to that effect. — Editor.

The marketing of meat

IT seems reasonable to offer answers to the bracketed editorial questions inserted in your June 6 report of my address to The Lincoln College Farmers' Conference.

You ask in the context of my assertion that monopoly marketing will not succeed: "What about Devco?".

One could answer curtly "Devco supports my argument against monopoly very well", or alternatively write a book in the same vein.

One should be clear, however, that any comment I make is not a criticism of present or recent Devco management, nor of the marketing approaches and techniques adopted.

All I would say is that results of market penetration have been frankly disappointing, and far below expectations at the time of Devco's formation, and, if I do not criticise the management, then it is the monopoly principle that must come under fire.

Trying to be brief, consider these few changes within US since 1960:

- United States livestock numbers have steadily declined — over 50 per cent in the period — so there is much less local lamb available.
- The large United States population has increased, and it has been, up to now, a prosperous population too.
- In 1972 EEC duties of 20 per cent were imposed with no change however in the low United States rate of duty, hence the American consumer could buy at a lower price and still return as good or better price to New Zealand than the British seller could.

I do not think anyone would argue that those factors represent a remarkably favourable supply/demand and relative price situation for the United States market.

In that period we saw percentages — on carcase equivalents, not just shipping weights — of New Zealand exports move as follows, based on New Zealand Meat Producers Board statistics (see table):

I think the development of the three markets handled by free-enterprise — Pacific/Saudi/Japan — speaks for itself as against the monopoly's performance.

Of course, so long as a monopoly rules alternatives have no chance to operate and so demonstrate the accuracy of my opinion that the USA market — which is a vital cornerstone — would have been handled better by private enterprise.

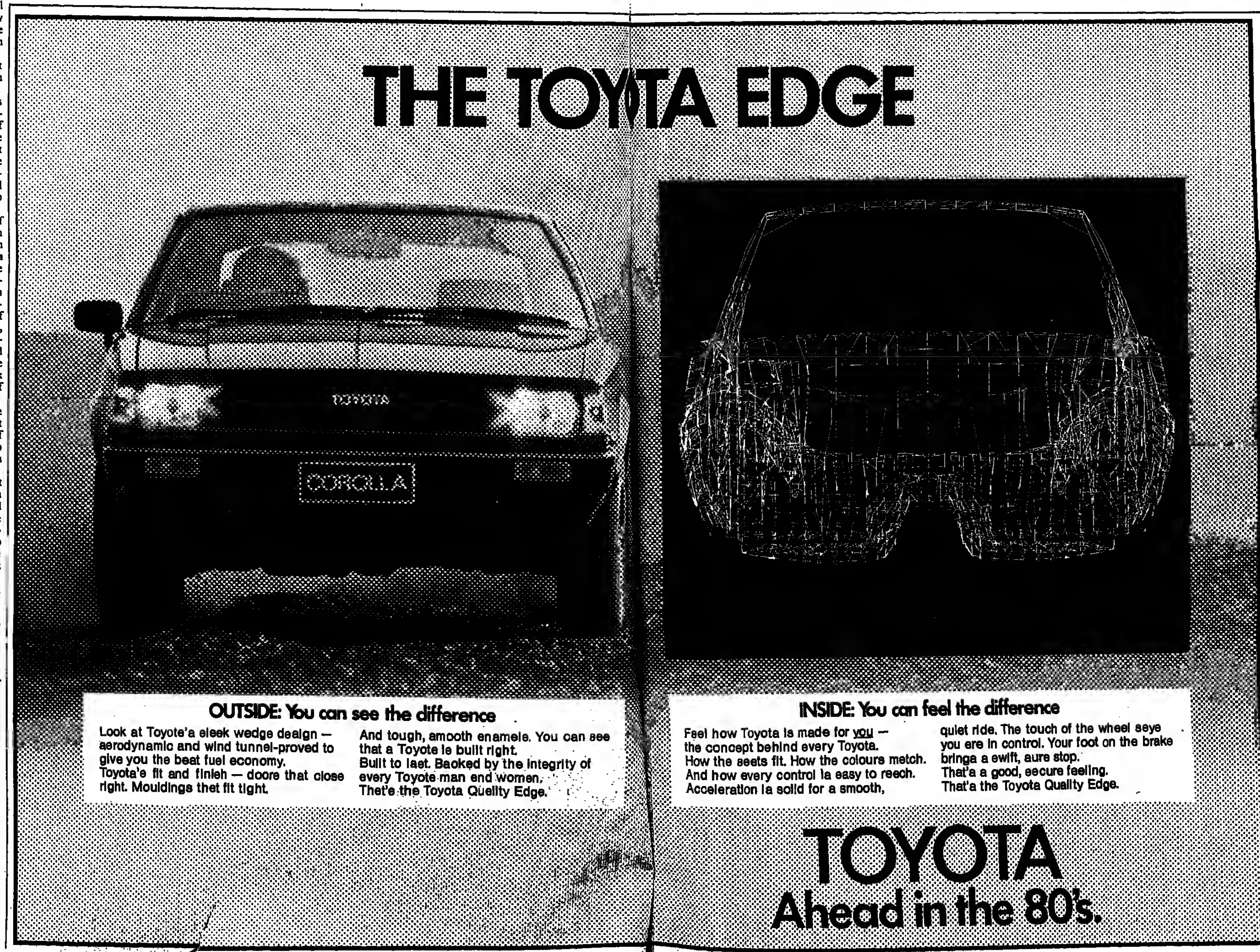
On the reference to number of export licence-holders I was not contradictory myself, I made my distaste for such controls evident in the context.

My point there is that the "Open Door" policy, still illogically maintained despite legislation abolishing meat works licensing (which was the reason for the "Open Door" policy) can, and has, created small co-operative or pseudo-co-operative groups whose commitment to marketing is limited, short-term, and unproductive for New Zealand.

Remove the "Open Door" legislation, remove licensing of exporters, and the situation would correct itself and, incidentally, people like PML and PPCS would not disappear.

P H Johnston
General Manager
W and R Fletcher (NZ) Ltd

		US	CANADA	PACIFIC IS	SAUDI ARABIA	JAPAN
1868	—	0.1%	2.4%	0.04%	0.1%	0.003%
1870	—	3.8%	0.8%	1.84%	—	1.76%
1880	—	3.8%	3.1%	3.2%	3.18%	3.8%
Tonnages 1880	—	12,800	11,100	11,388	11,100	12,686



Politics

Will Labour rescue the Government?

by Colin James

HAVE you been wondering when the Labour Party is going to come galloping to the Government's rescue?

Are not things now bad enough for the Government to provoke one of Labour's habitual knockout displays of disunity and disorientation.

The past few weeks have shown the National Party in anything but the cool, far-sighted, confident frame of mind the growth strategy propaganda was intended to generate.

In its general handling of day-to-day matters its Cabinet has begun to look reminiscent of the Holyoake Government in its dying days.

Symbolic of this are leaks. A Government in command and widely endorsed does not suffer too badly from leaks.

The enthusiasm of axe-grinding potential leakers grows in proportion to their perception of public receptivity. It is a thoroughly healthy sign for democracy. But it is an unhealthy sign for a Government.

So out came the Official Secrets Act to track down the dastardly plug-pullers on plans to hack at the Commission for the Environment.

There are three ironies in this affair.

The crackdown comes at a time when the Government is preparing new legislation on handling of official information intended to electorally window-dress the store-front of excessive state secrecy.

Governments will not willingly give up any of the real power secrecy creates through its conferral of a mystique of importance and expertise. Only an inquiring press will do that.

The second irony is that the Commission for the Environment itself was created for election window-dressing in 1972 — in the wake of the ferocious and electorally damaging debate on the preservation of Lake Manapouri from the rapacity of an aluminium smelter.

In those expansive, boom-laden pre-Quigley days the iron law of the inevitability of the growth of a Government organism once born was not thought significant — if it were recognised at all.

The commission has grown and, with the appointment of Ken Piddington, a skilled and intelligent former diplomat who played a key role in the negotiations with the European Economic Community in the early 1970s at the time of British entry, grown more vocal.

The third irony is that the controversy comes on top of the "televote" poll of alternative futures which showed, according to the organisers, large numbers of New Zealanders preferring an emphasis on conservation and preservation of the environment.

The whole affair is thus one more example of the snag-proneness of the Government's growth strategy: the row over the National Development Act; the vocal concern of small business and agriculture that they will be squeezed out of investment sources; past doubts and dissension in the Government's own ranks over bits of it; the turn off effect of the "think big" slogan; and now, perhaps, widespread environmental doubts.

The snag-proneness is itself at least partly attributable to the impatient and less publicly sensitive style of the Bill Birch developmentalists in the Cabinet.


Bill Birch . . . Impatience and inflexibility part of the plan.

There has been a real urgency in the National camp (both inside and outside Parliament) to get the foundations of the growth strategy laid tinker-proof before the election. There has not been time for the consensus-building of a George Gair — and the party appropriately turned to the less flexible and accommodating Birch.

But impatience and intolerance have spilled over beyond the energy and development portfolios. National politicians have become more ratty with the press.

None other than that respected judicial pillar of the establishment, Sir Thaddeus McCarthy, as president of the Press Council, last week referred to clashes between politicians and newspaper editors which "sometimes struck a near-personal note." He added: "In some instances the criticisms of the editors were, in my personal view, hard to justify."

A Government in full command will generally ignore editorial criticism or respond to it in reasoned fashion (the editors, according to McCarthy, bore the attacks well). Excessive attacks on the press are often symptomatic of a Government in difficulties.

There are other such symptoms.

After 2½ years of the loudest and clearest of clarion calls from its party workers for tax reform the Cabinet has still not sorted its ideas out.

It has found itself backed into a narrow and unyielding corner over budgetary policy — a huge internal deficit will limit room for tax moves; an overvalued currency is threatening to make the supplementary minimum price scheme a drain on the Treasury and does make manufacturing exporters a drain through generous, voter-rescued, export incentives (subsidies).

Minor, temporary success against inflation and interest rates has not secured the Government against the sort of criticism implied by one of its own candidates, Don Brash, recently arguing in a Broadlands house journal that inflation is "perhaps the most serious" problem and ("in my personal view") "will never . . . be reduced until we make reductions in government spending across a wide range of services."

Also symptomatic of a Government in difficulties is the tattered state of its South African tour policy — the sacred policy of non-refusal of visas does not stretch to Russian and North Korean visitors.

The Government's reaction has been to come out slugging the black nations. It might go down well with some of its supporters — "best thing Rob's done for ages, taking on the blacks," a party member said to me last week — but newspapers and a Heylen Poll majority alike have disapproved.

The unradical *New Zealand Herald* said the Government "seems willing to place considerations of internal politics ahead of international obligations". The even more unradical Christchurch *Press* labelled "strange" its threat to leave the Gleneagles agreement.

The National Party has looked alternately badly divided and a one-man band in its handling of the tour issue. Its performance in Parliament has suffered accordingly.

With the exception of the marginal lands affair last year, the past month has been the first time National has yielded to Labour since that party's first year in government in 1973.

Troubles inside Parliament — and troubles outside. If you want a symbol, this year's fine-tuning (?) Budget may well fill the bill.

Government apologists rightly point to changes in economic policy that by past standards have been adventurous. But still among party workers there is a strong feeling that the Government is tip-toeing, to borrow George Chapman's 1979 phrase, when it should be striding.

These concerns have disappeared from public audibility, but they are still live. One should not overlook the widespread, genuine support in the party for the Government's policies and style, but throughout the party one also hears open and frequent complaints — often focussed on a perceived need for a leadership change next year (and in extreme cases a determination to achieve it).

Given this level of suppressed unhappiness, it is not surprising there are other signs of discomfort in the party. While preparation for the election continues with much — and in some cases more — of its usual vigour, there is a detectable rank and file defensiveness.

A well-publicised weakness of organisation in Pakuranga — which many National strategists consider at real risk to Social Credit — is the tip of a one-last-chance-for-the-Government iceberg.

Three years ago National sailed through defections and public criticisms with ease, coming unstuck only in the last days of the campaign. Last year it was rescued twice from the ropes by an even more divided Labour Party: Roger Douglas's alternative budget in June and David Lange's botched coup in December.

But things do seem to be different this year:

- Bill Rowling himself has come alive a bit like he did suddenly during the 1978 campaign and talk of replacing him has died down;
- The promotion of younger, more penetrating MPs like Geoff Palmer and Ann Hercus has given more punch, purpose and appearance of unity;
- Among party workers there is a higher level of activity (and more numbers) than three years ago and a new aggressiveness, based on a feeling, absent until late in 1978, that they can win;
- Support from head office is more systematic;
- Policy is beginning to pour out.

It is not enough yet to say Labour is a winning party. But so far it has been at least enough to ensure Labour has not saved National from looking like a losing party — if it is of a mind to.

Economics

Council gives Muldoon a way out

by Bob Edlin

WIDESPREAD criticism of our tax system in recent months made tax reform — or lack of it — a likely hot potato for the Government during the election campaign.

But the Planning Council last week was gracious enough to present Finance Minister Muldoon with a strategy that should divert embarrassment on the tax score. All Muldoon need do is declare he will implement the Planning Council proposals.

Those proposals are neatly packaged in the council's latest report, *An Agenda For Tax Reform*, which concerns itself not so much with the economic imperatives that make reform necessary but with a mechanism — yes, another committee, folks — for more musings on the reform issue.

Certainly there is a time frame, in the council's considerations, which would result in legislation giving effect to thorough tax reform well before the 1984 election. But we all know what can happen to political deadlines!

Associate Finance Minister Hugh Templeton has indicated that the Government will give prompt consideration to the council's ideas and announce an early decision.

And by setting up a task force to consider tax reform options as the Planning Council urges, the Government could avoid election year criticism on the tax issue by saying it has the matter under urgent review.

Furthermore, the task force wouldn't be reporting any embarrassing ideas before the election. If all goes to plan (after the election, the Government might see less need for urgency), they would come next year — and the Government would have two years up its sleeve to implement and modify its reforms before the 1984 election.

The thrust of the Planning Council report is that tax cuts alone will not cure "the distortions, anomalies and inequities" of our tax system. Thorough tax reform is needed — "a more fundamental review and recasting".

Reform should be given high priority by all political parties, according to the council — but "it should not be approached piecemeal", as governments have tended to do in the past.

Reason: reform involves redistribution of the tax burden and changes in the means of tax collection. These changes have profound implications for the public (with obvious political ramifications).

But while comprehensive reform is needed as quickly as possible, "the changes must be based on an informed assessment of the implications," says the Planning Council report. Premature decision-making could lead to a worse, rather than better, tax system. "It is vital that a systematic review be set in train promptly to provide the basis for reforms to be phased in during the next parliamentary term."

The economic arguments that our tax system is in bad shape are something we all know, of course. But the argument against piecemeal change, in favour of a thorough review, is not developed in the report; it is presented rather as an article of faith.

Thus it skirts the fact that some of us are going to be walloped much harder by the tax-gatherer than under the present system if reforms are effected and the tax base widened.

If the system is comprehensively overhauled, the outcome must benefit the interests of some, and hurt the interests of others. There will be winners — and losers.

Farmers, for example, don't realise how advantaged they are, relative to other taxpayers. The task force studies are bound to reveal the extent of subsidies, price supports and tax deductions allowed in the running of farms.

It may be that these are necessary because of the resultant contribution to the nation's welfare.

But the studies might show that the farmer would be just as productive without so many tax advantages, which in fact foster inefficiencies because they make unnecessary an understanding of the real cost of capital. Thus the farmer will buy any tractor, rather than shop around for the best tractor, because it is a capital investment and tax-free.

There are sound reasons for a comprehensive reform strategy:

- There must be time to determine the best options and think through the implications.
- The people must be educated into accepting the need not only for reform, but more specifically into understanding the nature of the reforms considered desirable and the way in which they will further or hinder the interests of individuals.
- If the educative process is effective, the public will appreciate that everybody wins to some extent if the tax system is overhauled to better promote the national economic interest.

On the other hand, too many *ad hoc* changes limit the Government's capacity to make the inevitable major change. The *ad hoc* decisions tend to be easy ones (for that reason, many of the recommendations of the Ross Report in 1967 have been implemented; the crunch recommendations, such as the switch from a direct to indirect tax base, have been put aside).

Piecemeal decisions are made when winners are easily identified — and specially in an election year, governments are tempted to introduce measures designed to leave people better off. Politically, it then becomes that much more difficult to effect more fundamental decisions which leave some of those people worse off.

Muldoon's track record is one of tinkering. His first major change was to reduce the 19 steps in the marginal tax scale to five.

Since then, minor adjustments have been made to the tax rates which make people better off immediately, but not for long. Inflation soon raises wage rates, which elevates people to higher marginal tax brackets (see table).

A major review is certainly needed, to plan restructuring of the system to make it more equitable and efficient and more acceptable to taxpayers. But the advantages of income tax should not be forgotten in the urge to reform:

- It is an open system — there are no hidden taxes.
- If the Government has particular policy objectives, the public can see them — for example, if the Government wants to redistribute taxes through the progressive tax scale, its policy is open to public scrutiny (and approval or disapproval).
- It is fairly easy to administer.

But the Government must widen the tax base. All forms of earned income should be considered for inclusion — company cars, allowances, and other fringe benefits, lower interest loans, capital gains, and so on.

Such questions are not going to be tackled by Muldoon in an election year, which makes the Planning Council proposals a timely means of dealing with them today while waiting to reap the whirlwind next year.

The Changing Pattern of Central Government Taxation

	1960	1965	1970	1975	1980
	(percent)				
Personal income tax[1]	41	42	46	59	64
Company income tax	18	23	20	15	10
Estate and gift duty	5	3	2	2	1
Taxes on goods and services	36	32	32	24	25
Total	100	100	100	100	100

1. Includes social security tax in 1960, 1965

Source: The Budget, for selected years.

Aviation

Airfare discount evidence: MOT 'no', TAANZ 'yes'

MINISTER of Transport Colin McLachlan last week maintained that he and his department, the Ministry of Transport, had received no evidence about illegal fare discounting, embarrassingly involving even Air New Zealand.

NBR asked the Minister to comment on our report (*NBR*, June 29) that the illegal fare discounting — offering cut-rate air fares below allowable limits — is widespread in Auckland.

We also asked McLachlan if he was aware of the claimed irregularities by Air New Zealand. If so, did that imply he condoned them? If not, what action, if any, would he take?

A spokesman for McLachlan told us: "The Minister has not received any information on this fare discounting."

He also said no evidence had been passed to the Ministry of Transport.

In fact, there have been a number of instances in past years when evidence supporting claims of illegal airfare discounting has been presented to the MOT by the Travel Agents Association of New Zealand.

Last week, TAANZ chairman Alan Spence rejected the ministerial claim that no evidence of malpractice in the travel marketplace had been placed before the ministry.

"There have been two or three cases presented to the ministry over the years from TAANZ. In fact, it may be more".

Spence added: "And there is one they (ministry officials) have on their plate at the moment which we maintain is clear evidence of illegal discounting."

He said the TAANZ board had issued a statement on June 17 which referred to the "current malpractice in the marketplace which discriminates and is not in the overall interests of the travelling public".

However, the ministry has so far not taken any legal action to stop the practice.

Commenting on *NBR's* latest claim, McLachlan's spokesman said: "All we have basically at the moment is rumours. The Minister believes TAANZ has been collecting evidence and passing it to its airline steering committee (an industry self-regulating body) but any such evidence has not been passed to the ministry or the Minister.

"Until then there is not a great deal we can do. Until the evidence has been presented it is difficult to act."

Air New Zealand deputy chairman Des Dalgety said the airline is investigating the claims detailed in *NBR*.

Asked if any action was likely, he said it was "always difficult to answer" hypothetical questions.

From Page 1

who has acquired a ticket in violation of applicable law. . .'

● The Act itself provides a general right to the public to be heard in relation to the grant of licences (for example, sections 17, 26A and 27 of the Act). Such provisions can only be given meaning if the public are entitled to inspect a register.

● Again, the legislation provides in section 31 that an air services operator who holds a licence is subject to the law applying to common carriers. Obviously, it would only be possible for a member of the public to determine whether a particular airline operator is a common carrier if the register were open to public inspection."

The legal advice added: "We can see nothing in the legislation which would justify a contrary view. We accordingly advise that the register of air service licences is available to public search."

The Ministry of Transport solicitor told *NBR*: "We disagree that there is an unqualified right of public access to the register held by the Secretary (of Transport)."

This view, he said, "accords with the view" of the chairman of the Air Services Licensing Authority. However, the legislation provides that the register is to be kept by the Secretary for Transport, not the authority, so the chairman's view does not legally determine the issue.

In 1966 the Court of Appeal considered a similar issue arising from the 1963 Kaimai air disaster. Central to that action was whether the National Airways Corporation had a licence and, if not, whether that removed the then 5000 pounds liability limit. The court held that NAC did not have a licence and that the limit did not apply; although there have been several changes in the law since then.

In its decision, the court commented: "The public has an interest in the enforcement of the (Air Services Licensing) Act and regulations, particularly when the successful result of an application for a licence or its renewal confers not only rights on the operator but also immunity from the common law liabilities arising out of the operations." The court did not, however, expressly say that the register of licences is open to inspection.

In the Erebus case, if Air New Zealand were found to be operating without a licence on that flight it could lead to legal action claiming a removal of the liability limit.

The Air Services Licensing Act is largely used as a market regulator and, in effect, has served as a protective device for Air New Zealand.

The authority may issue a blanket licence authorising air service "generally" throughout New Zealand or may prescribe such specific details as the class and number of aircraft to be used, a date from which it should start, the localities to be served and the frequency.

In practice, for passenger services, it has usually issued specific licences of the second kind. There is also provision for a temporary licence for no more than one month or for any specified special occasion or occasions.

Some at least of the Air New Zealand tickets for the doomed Erebus flight were originally written from Auckland to Auckland. But later it was decided to terminate the flight at Christchurch and tickets were amended accordingly.

Further confusion exists because the tickets were issued on Air New Zealand International flight documents (hence the "TE" prefix to the flight number), not domestic flight tickets. Whether the ticket contracts are for a domestic or international service is therefore not clear.

NBR wanted to search the licences to see if Air New Zealand were authorised to fly passengers on DC-10 aircraft between Auckland and Christchurch.

In general, aircraft operators have to seek official amendment to licences when they operate an existing route with a new aircraft type.

The key to this is the terms of the licence covering the class of aircraft operated and the localities served. Was an amendment necessary to fly DC-10 passenger services between Auckland and Christchurch?

Or did Air New Zealand's licence allow it *carte blanche* throughout New Zealand?

NBR asked Air New Zealand deputy chairman Des Dalgety if the airline would be prepared to let us examine the air licences held by it.

Dalgety later told *NBR* that the airline did not have the licences relating to the Erebus period — they were held by the authority, he said.

"I don't think it is a question of showing them to you or any other newspaper", he said. If the lawyers for the consortium wanted to inspect the licences, they had not made any approach along those lines to the Air New Zealand lawyers.

"Documents speak for themselves. I would be reluctant to interpret documents in matters relating to litigation", he said, declining to answer specific questions on the licences.

The Ministry of Transport refusal to allow *NBR* to inspect the register of air services licences means that speculation, rather than fact is all that is now available.

FOOTNOTE: If the register of air service licences were kept by the Justice Department, rather than the Ministry of Transport, then it would appear that the Justice Minister's announced policy on freedom of information would resolve the issue in favour of public access.

In the present case, *NBR* will refer the Ministry of Transport's refusal to the Ombudsman.

Sharemarket

Take heed of chartists and their crystal ball-gazing

by Klaus Sorensen

CONTRARY to popular belief, sharemarket chartists are not funny little men with thick lensed spectacles and lumpy suits.

But they are an oppressed bunch, often categorised as cranks, and because of the seemingly complicated nature of their occupations, too often conveniently overlooked.

In New Zealand there are only a handful of chartists, and it seems each one uses a different method of charting the market's progress.

A couple of broking firms have chartists "in-house", but the backroom boys and their predictions are seldom available for public consumption in brokers' market letters.

In the United States — the home of charting — it's a different story. There they chart Wall Street half-hourly (New Zealand's chartists content themselves with daily adjustments to their graphs) and a single chartist's predictions can have a surprising effect. Not so long ago the flamboyant Wall Street chartist Jo Granville advised his supporters to sell — and the Dow Jones Index promptly dropped 30 points.

This provoked quite a furore with accusations that Granville had caused the fall, instead of having predicted it. Granville haughtily replied: "I report fires, I do not set them." But it highlighted the two different schools of thought, and the battle that has raged between what are called the "fundamentalists", and the chartists.

The chartists say the market's movements can be categorised into support and resistance levels and that these in turn are determined by supply and demand. They attribute a considerable amount of psychology to investors' decisions.

The fundamentalists go the other way, pointing to earnings, dividends, net yields, and interest rates, as the main influences on the market.

But where the two groups really fall out is over predicting, and plotting, the market's behaviour.

The fundamentalists argue the delightfully named "Random Walk Theory", which says the market is unpredictable due to the intangibles of profitability, disclosure, insider trading and whether the managing director of a company has just been fired.

They take this further and say the broad body of investors develop the market trend.

One local chartist told *NBR* last week that he could accept that theory for a day, or a month, but no longer, because it meant the market would never demonstrate definite predictable trends — which he claims exist.

At either extreme are the chartists who ignore fundamental factors such as earnings and dividends (which the moderate chartists agree do have an influence) and the fundamentalists, who ignore the chartists.

Apart from recognising the resistance and support levels in individual share prices, most New Zealand share chartists plot the sharemarket index of their choice (some use the *Herald* index, some the NZUC) on a daily basis or every time the index moves more than two points.

Logarithmic paper is a must, to provide trends and curves to even out the oscillatory movements. They mark movements with little "x's" and after a while they claim to predict when the market is vulnerable to a fall, and when it is set to break through into a higher level.

Finding support and resistance levels with an individual share is much easier.

The chartist *NBR* spoke to describes it simply — "take a share that sells at a 'buck', there's a lot of trading and sooner or later the buyers outnumber the sellers, and the price moves to 120c.

"At that stage the buyers think 'that's a bit heady', and the price comes back to 100c again. So the people who thought the shares were a good buy at 100c, but missed out when they went to 120, then buy in — and that's a support level.

"The opposite is resistance where the people who bought at 120 are horrified to see the shares fall to 100c and they resolve then and there, 'I'll sell when they get back to 120c'."

There is also "whole figure resistance" where buyers baulk at prices such as a dollar, $2.00, or $3.00 — and equally there is whole figure support where buyers see those same prices as good entry points when a share has fallen from a higher level.

But where buying interest is strong enough to push our theoretical shares past 120c, this is called a "buy sign".

The recently formed New Zealand South British is an excellent example of a share susceptible to support and resistance levels. Last week the company's shares provided a ready demonstration following the release of the latest profit result.

In general, NZSB shares find buying support levels at 100c, and occasionally at 90 to 95 cents where the institutions find them attractive. And they have selling resistance levels at 110 to 115 cents where many people are tempted to take a profit.

The clever trader would buy the insurance giant's shares at 97 or 98 cents, and sell at 108c or perhaps 114c to get around the resistance and support levels where shares tend to be harder to buy — and sell.

Last Wednesday the company's shares upset that theory — at least in part.

The release of the latest figures - which showed underwriting losses of $43.2 million, but a net profit up 6.1 per cent from $23.6 million to $26.0 million — after huge investment gains — took the market by surprise.

The shares fell 7c to 93 in the morning trading session but the market appeared to have second thoughts and they bounded back to 98 by the afternoon close.

While it might appear the company's shares have found a new support level of 93c, it is more likely the market overreacted in the morning and the more astute investors recognised NZSB shares as a "buy" at 93.

Relating such experiences to the whole market is much more difficult. Our chartist admitted we had caught him at a particularly bad time because he couldn't really tell, from his own chart, what the market was about to do.

He believes the market is "absolutely confused" about where it should go from here — particularly as prices are historically very high and there is the serious imponderable, in the form of an election, coming up in a few months.

But asked for his opinion, he said "the primary uptrend is still holding and although the market is at a very critical stage I believe the uptrend will be sustained.

"I favour the upside resolution — I think the index will go higher but I believe some shares have peaked and it could be that the secondary leaders will make the running."

Should the market retreat, he believes the indices will find their various support levels. But only after a shakeout.

Current prices have the NZUC index at around 690 and the *Herald* index at 480. Our chartist believes the market could fall to as low as 550 on the NZUC and 400 on the *Herald* where basic support would come into play. But on the way down he suggests initial support would be forthcoming, at around 620 on the NZUC, and 440 on the *Herald*.

But whether the initial support level will be sufficient to hold the market from a full scale slide is hard to say.

When we visited the chartist he said he wished we had arrived two months earlier (in which case he could have plotted the market's course accurately) or "in a couple of weeks time".

And while we will check the charts in the coming weeks, by the end of last week it seemed his parting advice — that a spate of issues (both new floats and premium cash issues) could determine the market's progress over the next few months — was quickly coming true.

The announcement of a $35 million cash issue from NZ Forest Products, and a pessimistic preview from Carter Holt (thereby undermining much fundamental earnings support), at the end of last week, looked set to knock market confidence.

Finance

The business week

Colyer Watson Holdings Ltd's subsidiary, **Colyer Watson and Co Ltd**, holder of 60 per cent of **Ammo Phos (NZ) Ltd**, has also sold its holding to **East Coast Fertiliser Co Ltd.**

Greggs Ltd has received acceptance from holders of 94 per cent of **Wilson Distillers Ltd** and has extended its offer to July 13, pending receipt of one remaining Government consent, when the offer will be declared unconditional.

Hawkins Holdings Ltd: audited profit after tax for the year ended March 31 was $480,262 (last year, $258,910). A final dividend of 6 per cent will be paid on August 11.

L and M Oil: Surplus for the year ended October 31, was $33,343 (1979 $161,798 deficit), plus transfer of gold search costs to an exploration account, of $44,945, making a total surplus of $78,288.

Ceramco Ltd: After-tax profit for March 31, up 21 per cent from $5,549,000 to $6,693,000, less extraordinary items of $543,000 ($266,000). A 1-for-10 bonus issue is recommended. A final dividend of 11 per cent on bonus increased capital will be paid on September 11, with the ordinary dividend rate up from 18 to 19 per cent. The company will raise $9 million by a renounceable 1-for-4 cash issue carrying a $1.25 premium.

Manthel Holdings Ltd: unaudited consolidated net profit after tax to year ended March 31 was $590,000 (last year $319,000). Extraordinary profit from sale of property $275,000 (last year $51,600) before tax. Final dividend of 10 cents a share makes a total dividend of 17 cents (14 cents last year).

Naylor Love Construction Ltd: After-tax profit to year ended March 31, $91,013 (last year $160,021). Final dividend up from 13 to 14 per cent, payable on August 19.

New Zealand Forest Products will make a cash issue of ordinary shares to raise $35 million. The offer will be 1-for-7 of dollar shares at a $2 premium and will be renounceable.

New Zealand South British Ltd: After-tax combined profit for the 12 months (NZI) and nine months (SBI) to March 31 was $26,084,000 (last year $23,683,000), despite combined underwriting losses of $43,171,000 (last year $51,386,000 NZI and $10,071,000 SBI).

Otago Press and Produce Ltd: unaudited after-tax profit to March 31 $1,015,180 (last year $837,030). Final dividend of 7c a share makes a total of 12c per share for the year.

Smith Biolab Ltd: unaudited group profit after tax to March 31 was $971,997 (last year $858,507), less extraordinary losses $22,720 (last year $530,314). A final dividend of 11 per cent will be paid on August 31 and a 1-for-7 bonus issue is recommended. A cash issue of ordinary 50 cent shares will be made at a premium of 55 cents. The issue will be made on bonus-increased capital and will be in the ratio of 1-for-8.

Spedding Consolidated Ltd: net profit to March 31 slumped from $162,895 to $33,484. No dividend recommended.

Wilson Neill Ltd: Audited consolidated profit after tax for the year ended March 31 was $925,000 (last year $1,151,000). A final dividend of 17½ per cent (last year 16 per cent) is payable on August 18.

Economic indicators

FIGURES for the 1981 March quarter point to a 14.4 per cent increase in manufacturers, sales over the corresponding 1980 quarter. Purchases were up by 12.7 per cent, wages and salaries, 13.2 per cent. Other operating expenses increased by 12.9 per cent, gross capital expenditure was up 9.7 and hours worked 4.2 per cent down. The value of stocks of materials was 9.3 per cent higher than the March 1980 quarter and finished goods were up 11.6 per cent.

The week ahead

TUESDAY: Joseph Nathan Ltd, AGM.

WEDNESDAY: NZ Industrial Gases, Extraordinary General Meeting. Muroc Building Society AGM.

Exchange rates

AS at July 2, NZ dollar sells at:

Britain	.4448
US	.8403
Canada	1.0117
Australia	.7370
Fiji	.7305
Austria	14.33
Belgium	32.98
China	1.4802
Denmark	6.3458
France	4.8058
Greece	49.54
Hong Kong	4.6658
India	7.4228
Ireland	.5562
Italy	1002.96
Japan	190.45
Malaysia	1.9643
Netherlands	2.2435
New Caledonia and Tahiti	87.34
Norway	5.1045
Pakistan	8.3286
Portugal	53.85
Singapore	1.7975
South Africa	.7514
Spain	81.14
Sweden	4.2857
Switzerland	1.7393
West Germany	2.0166
Western Samoa	.8853

Stock Exchange weekly review

FOR WEEK FRIDAY JUNE 26 TO THURSDAY JULY 2

	Last sale	Week's high	Week's low	Turnover
ACMIL	125	—	...	0
Airwerk, 50c	125	126	125	800
7.8% pr	—	—	—	0
8% pr	—	...	—	0
Ajax G K N	386	386	365	1000
Alsen, 50c	172	172	170	2800
A H I	260	293	288	22400
Alliance, 50c	123	125	123	8700
12% conv pr	112	116	110	600
Allflex	125	125	123	36200
Allied Farmers	348	347	345	1800
12% conv pr	365	...	---	0
Alloy Steel	225	226	225	400
A M Bisley, 50c	286	255	265	900
Ampol Pet, 50c	247	—	--	0
conv pr	228	...	...	0
A Beaven	148	152	132	78400
11.8% conv pr	130	132	130	1800
16 con pref	142	142	142	1200
Andas Group	160	160	160	3000
5-8.5% pr	121	...	--	0
12% conv pr	130	...	—	0
ANZ Banking Group	363	368	362	27800
A Wright	370	--	---	0
'A' 6-7.5% pr	60	—	—	0
'B' 5-8% pr	50	---	...	0
A Barnett	300	305	295	2000
A Ellis	46	45	45	3500
Ashby Bergh	360	360	360	7700
A G Cables	320	320	320	300
Atlas, 50c	46	48	48	21000
10% conv pr	46	46	45	5700
Auck Gas	560	565	565	6200
Aurora, 50c	212	215	211	16700
10% conv pr	260	...	—	0
14% conv nte	160	180	160	2600
A C I	270	---	--	0
Autocrat Sanyo	355	365	365	300
Bailie, 50c	62	85	82	100
Ballins, 50c	126	128	127	28600
11% conv pr	110	110	110	1600
Bank NSW	525	525	500	2100
Beach Petr, 50c	425	425	425	1700
Bing Harris, 50c	80	82	90	13900
B N Z Finance	360	380	380	2600
Bridgevale Mining	126	135	125	72100
Brierley, 50c	471	475	470	41350
16.25% spec pr	255	...	...	0
Bos, 50c	72	..	..	0
B H P, 200c	2520	2550	2500	2230
Brother, 50c	83	83	83	500
Bunting, 50c	145	145	138	13700
C P O	385	390	385	34600
10% conv pr	360	385	360	3300
C F C A	230	.	--	0
11% conv pr	175	--	.	0
C F M	365	355	366	6500
12% conv pr	250	260	250	200
Cant Flour	220	---	--	0
Cant Timber	395	395	395	100
12% conv deb	370	375	370	17200
Capital Radio, 25c	120	—	..	0
Capital Life, 50c	110	---	...	1500
Carbonic Ice	300	300	300	300
Carter Holt	465	488	485	12300
CBA Finance, 50c	335	355	335	4000
CCL	260	280	280	7100
Ceramco	265	310	295	101100
12% conv pr	165	185	165	2600
16% red spec pr	400	---	...	0
Chenery	365	365	385	200
Ch'ch Gas	320	320	320	800
Ch'ch Press	370	375	360	1000
City Realties, 10c	50	50	50	6500
Clyde Group	125	128	123	3700
12% conv pr	115	118	115	6600
Collingwood, 50c	50	--	--	0
13% conv pr	50	50	50	200
Col Motor	305	305	305	300
Colyer Watson	130	130	125	26100
Comalco, 50c	270	270	270	3200
Command	178	180	178	2600
Con Metal, 50c	166	166	166	2000
conv pr	200	---	—	0
Con Minerals, 4c	17	17	16	283350
Cooks Wine	140	145	136	42100
Cory-Wright	240	...	—	0
12% conv pr	165	165	165	100
16.25% conv pr	160	--	---	0
Crown Consolidated	225	235	225	18700
11% conv pr	215	215	215	200
C S R	1026	1025	1025	1600
Dalgety (NZ)	265	285	280	17200
Dalhoff & King, 50c	60	60	56	10600
Dasnea	170	170	170	2000
D I C	220	225	220	25300
12% conv pr	170	170	166	26100
Dingwall & Paulger	330	330	330	1200
D Mcl Wallace, 50c	108	110	108	18400
12% conv nts	65	--	..	0
11% nte '82	116	116	116	200
84 conv nte	66	65	65	300
D I S A	66	—	—	0
Dom Brew, 50c	132	136	130	66400
5% pref	120	—	—	0
11% conv pr	66	66	65	27600
Donaghy's	300	320	300	4600
12% conv pr	340	---	—	0
D R G, 50c	120	—	—	0
Dunlop (NZ)	400	410	400	2880
4.5% pr	56	—	—	0
Ebbett	170	—	---	0
Ebos, 50c	121	121	121	2200
E L'Stein, 50c	345	345	336	7600
Emperor Mines, 10c	20	—	---	0
Endeavour	205	210	205	14100
E Adams	235	---	--	0
Europe pref nt	64	..	..	0
F T C, 50c	128	140	128	27500
11% conv pr	115	116	116	600
F Walmsk, 50c	60	—	..	0
Feltex, 50c	170	175	170	40700
5% pr	175	—	—	0
16% pr	178	180	176	12700
Firestone NZ	155	155	155	1600
Fisher & Paykel	268	302	265	65600
Fletcher-Challenge	280	270	264	567100
15% conv pr	104	105	104	3600
16% conv pr	440	440	440	1660
Fountain Corp	100	—	--	0
Foveaux Radio	88	—	-	0
Freightways, 50c	202	205	202	371400
10% conv pr	155	156	155	200
Gear	60	60	56	4500
11.5% conv pr	65	66	66	200
G Court	160	—	--	0
G J Coles, 50c	400	--	...	0
Golden Bay, 50c	70	72	71	23700
Goodman Group	460	460	460	4660
14% conv pr	400	—	---	0
Grosvenor Props,	60	60	60	500
Hallenstein	260	260	260	14100
Hauraki Enterprises, 25c	166	135	126	101100
Hawkins, 50p	112	112	110	16600
6.5% pr	...	—	—	0
H G Farmers	280	266	290	5000
13% conv pr	180	160	180	4500
Haywrights 5 pref	55	...	...	0
Healing	282	288	282	17300
12% conv pr	280	260	280	2800
H Pollard	520	520	520	800
10% conv pr	400	400	400	300
Henry Berry, 50c	185	187	185	8800
10% deb	235	...	...	0
Holeproof	500	510	500	360
Hooker, 50c	73	...	—	0
Hume Industries	150	165	150	1300
5-7.5% pt pr	40	40	40	800
I C I (Aust)	155	--	...	0
I C I (NZ)	230	232	230	1100
Ind Broadcasting	105	--	...	0
Independent News	230	230	226	4100
Ind Chem, 50c	226	--	—	0
Intersman NZ, 50c	—	--	...	0
I W Dew, 50c	260	250	260	40300
James Smith, 50c	88	88	87	4200
14% conv pr	80	80	80	200
12% conv pr	55	--	—	0
J Burns	102	104	102	6800
12% conv pr	210	210	210	200
John Edmond	250	250	250	1600
J Weberer, 50c	72	73	72	500
12% conv pr	53	55	53	600
J Nathan	135	135	135	200
6.5% pr	125	—	...	0
J Reilray	260	260	260	100
12.5% conv pr	185	--	---	0
L W Rudkin, 25c	60	87	60	50800
12% conv pr	125	125	122	5700
Lanes, 50c	85	85	90	4600
L D Nathan	226	225	225	21000
9.5% conv debs	227	—	...	0
15.5% conv pr 80	230	232	230	8900
Leyland, 50c	200	---	...	0
Lion, 50c	152	158	148	128800
10% conv pr	155	152	150	14500
12% conv pr	122	129	122	2600
L & M Oil, 50c	40	43	40	31000
Lusteroid	260	260	260	1500
Mainzeal Corp, 50c	215	215	205	100
15% conv pr	110	---	...	9500
Mair, 50c	305	306	305	3200
11% conv pr	300	300	300	100
Manawatu, 50c	110	...	..	0
Manthel	215	...	...	0
Marac	440	445	440	4300
McAlpine, 50c	112	112	112	4400
McKechnie	242	243	242	14500
Midland	208	208	208	1200
11% conv pr	190	190	190	100
Min Resources, 20c	118	136	112	117400
M O'Brien, 50c	58	68	65	700
12% conv pr	63	.	..	0
spec pr	54	.	..	0
Montana, 50c	152	150	160	24300
M P I M	205	---	..	0
11% conv nts	170	..	..	0
Motor Holds, 50c	190	194	188	38100
Motor Trad, 50c	78	77	76	10000
5-6% pr	82	82	80	85100
11.5% conv pr	80	80	80	300
MSI Corpn, 50c	100	108	100	38500
12% conv pr	100	100	100	200
Mt Cook	200	200	187	12300
conv pr	168	157	162	29800
M I M Holds, 50c	750	..	---	0
Nat Insco, 50c	310	318	310	16500
National Trading	...	...	...	0
6% pr	...	...	...	0
Naylor	150	---	...	0
5% pr	30	..	..	0
Neil Holdings, 50c	80	82	80	286600
N Z Cement	148	150	148	2600
N Z F C, 50c	150	150	147	14700
11% conv pr	130	130	123	500
N Z Farm Fert	220	220	220	11800
12% conv pr	183	185	183	300
14% conv pr	170	170	170	3200
N Z F P	416	434	412	86500
N Z I O	448	445	445	1400
N Z I	305	...	...	0
10% conv pr	285	285	285	16100
N Z Leathers	37	37	37	5300
N Z Motor Bodies	65	65	65	500
N Z M C	200	200	200	36700
N Z News	245	248	245	16800
N Z Petrol, 50c	800	800	800	1650
N Z Refining	156	166	156	1800
NZSB	65	102	62	513300
N Z Steel	226	230	226	37400
N Z United	800	550	800	1300
Nuhaka	240	---	---	0
Odlins, 50c	96	105	65	71400
'A' 5% pr	66	---	...	0
12.5% conv pr	76	122	76	6100
'B' 13% conv pr	120	120	120	4800
15% con notes	125	125	122	26100
16% conv pr	76	--	-	0
Oil Search	57	-	-	0
12% conv pr	60	--	-	0
Optic	57	58	58	6800
Otago Press & Prod	170	170	160	2100
Pavroc Holdings	240	---	--	0
P O L Holds, 50c	210	210	210	1700
Perm Invest	110	—	---	0
Phillipps & Impey, 50c	220	220	218	57700
Print & Packaging	215	217	208	22400
11.5% conv pr	160	180	160	1000
Progressive	475	476	470	62200
12% conv pr	825	---	--	0
Prop Securities, 50c	250	250	200	700
Prud Building	135	---	---	0
Quill Humphreys, 50c	115	115	115	2100
12% conv pr	105	---	---	0
Radio Avon, 25c	110	110	110	2200
Radio Otago	84	84	94	3500
Regina	170	170	170	2600
R & W Hellaby	86	103	96	17100
Reid Farmers	325	---	—	0
Repco (NZ), 50c	60	80	90	10200
Reverlex	320	---	---	0
Rex Consol	320	325	320	3000
conv pr	165	166	166	6400
Rheem, 50c	225	230	226	4300
Ricksion, 50c	242	—	---	0
Rothmans, 50c	150	151	150	45200
R W Saunders	270	---	—	0
Salmond	230	230	230	4200
Sanford	360	360	360	1000
pr	310	—	—	0
12% conv pr	300	--	—	0
12% 'B' conv pr	260	260	260	600
Schofield	165	---	—	0
Scott, 50c	96	98	99	1000
12.5% conv pr	90	—	--	0
Selby	270	---	...	0
Skellerup, 50c	386	385	386	2700
5-7.5% pr	40	40	40	2700
Smith Biolab, 50c	180	182	172	14400
12% conv pr	150	150	150	2000
Smiths C M	150	182	160	1800
Sthn Cross Hotel	140	140	140	13000
Sthn Cross Mins, 20c	42	42	42	9600
S F M	280	290	280	86100
Spedding, 50c	70	70	70	2500
12% conv pr	75	..	..	0
Steel & Tube, 50c	145	150	145	1056800
Suckling	160	160	158	2200
Taylors	150	160	150	100
12% conv pr	165	165	165	100
Tellherm	155	165	165	5500
12% conv pr	135	...	--	0
T J Edmonds	320	320	320	2200
Tolley	195	198	185	7700
Tour Fiji	40	40	40	800
Trans Ashburton, 50c	60	60	60	300
TNL Group, 50c	117	119	117	88900
10% conv pr	80	80	80	600
12% conv pr	105	105	105	2300
Trans (Nth Cant)	138	138	138	1600
13.6% conv pr	115	...	...	0
16% conv pr	115	...	...	0
U E B, 50c	124	126	124	38400
6.6-7.8% pr	115	...	...	0
12% conv pr	111	111	107	7800
16% conv pr	72	72	72	11800
Union Steam Ship	62	...	...	0
5.5% pr	76	...	...	0
United Bldg	110	...	..	0
United Publishing, 50c	295	295	295	300
Vacation, 50c	66	98	95	214500
12% conv pr	70	71	70	1000
12.5% conv pr	70	72	70	700
Waitaki-NZR	252	255	250	34900
11.5% conv pr	200	203	200	2200
Walker & Hall	450	...	...	0
Wattie, 50c	160	165	160	93800
12.5% conv pr	111	112	111	3000
Walgas	430	430	430	100
Westbridge	265	265	265	200
Wilkins & Davies	440	440	440	1000
5.75-7.5% pr	56	...	..	0
W Jaffery	158	160	156	56100
12% conv pr	143	...	..	0
Wilson & Horton	440	446	430	43450
Wilson Distillers	155	...	.	0
Wilson Neill	118	118	116	14600
12% conv pr	170	.	.	0
Winstone, 50c	70	72	69	85500
12% conv pr	53	57	53	24200
W'Wths (NZ) Props, 200c	72	72	72	300
5.75% pr	72	.	.	0
W'Wths Aust, 50c	245		.	0
Wormald	315			0
5-7.5% pr	112	.	..	0
W Sutherland	116			0
Yates Corp	410	425	410	10050
conv pr	170	170	170	100

Overseas trade

Govt hands over another $6.25 million for BANZ

by Ann Taylor

THE Government advanced $6.25 milion last year to the Export-Import Corporation to "enable continued participation" in the $12 million joint-venture BANZ coolstore in Bahrain.

The Government's $1.5 million shareholding in the venture is held in "a caretaker capacity" by the corporation (EXIM). It had been intended to transfer this to a local holding company or companies wishing to become associated with the project.

But, after initial problems, lack of interest from local companies and financial difficulties the Government attempted to sell out.

The net result of negotiations to sell our 49 per cent holding in BANZ (the Bahrain Trading and Storage Company) to the Bahrain Government was Prime Minister Rob Muldoon's announcement that the company would be financially restructured.

In December last year, he said "current debt finance, much of which is subject to shareholder guarantees, will be converted in to equity capital. Additional equity will be provided to cover relatively minor expenditure still required on the complex.

"The paid up capital will be approximately $NZ16 million, of which New Zealand's share will be $7.8 million."

Acting Finance Minister Hugh Templeton, in reply to a question in Parliament, revealed the $6.25 million figure to the surprise of people involved with the project here.

The BANZ accounts have not yet been published and the audited version was not ready in time to be included in EXIM's annual report, due to be tabled in the next few weeks.

BANZ was formed in 1977 after approaches from the Bahrain Government. The agreement to proceed with berthage and storage facilities in a "free zone" to "eliminate congestion" for New Zealand exporters in the then busy Gulf area was signed in April 1978.

Local consulting engineers and construction firm McConnell Dowell designed and built the stores.

Against advice from the departments of Trade and Industry and Foreign Affairs the project, with a $2 million New Zealand shareholding and $8.5 million borrowed from Arab banks, proceeded.

Opening the store in October 1979, Muldoon promoted it as a back door to the lucrative Saudi market in the "Singapore of the Gulf". He said it would form the base for future joint-ventures with Bahrain as the country moved from an oil-rich economy to one based on trade.

But the company encountered cash-flow problems and competition with local companies' arrangements with existing agencies and other facilities in the area.

The store was without a manager for a year after the two previous men left.

The company formed here to liaise with local exporters — BANZ New Zealand Ltd — closed after four months when the manager resigned. It now exists solely on paper.

The Bahrainis' 51 per cent shareholding has varied between private interests and the Government.

Last year the Government here negotiated to sell its share in the store to the Bahrainis. Explaining the reason for the withdrawal, Muldoon said "changes in the port structure and trading circumstances in the Gulf have diminished the value of the store and the role which it could play in promoting our exports."

Activities were "scaled down" (some say they were "dormant"), while the talks were under way.

Those talks ended in agreement to continue the venture and remove the debt incurred.

Cash-flow problems, restrictions from the port authority, alternative shipping routes to stores, failures in management continuity and conflicts of interest with the Bahrain private shareholders and other factors have contributed to the store's lack of success which the Government has committed further taxpayers' money to prop up at, *NBR* understands, the instigation of the Bahraini...

NZ software export trade in view

by Stephen Bell

A NEW Zealand-developed software package, intended to short-circuit the expensive computer-programming process, is attracting worldwide attention. And the promoters believe it could be the foundation of a lucrative software export industry based in the South Island.

The possibility of a Christchurch-centred software "factory" was endorsed last week by Burroughs New Zealand general manager Hugo Simpson.

Simpson believes the Linc programme (Logic and Information Compiler) is an exportable commodity in its own right, and could be used for efficient production of computer software packages for worldwide consumption.

The product was developed independently of Burroughs by Christchurch software specialists Peter Hoskins and Gil Simpson, but both product and developers were quickly snapped up by the computer manufacturer.

The Linc product aims to provide a means of defining and generating computer-based applications which is both quick and comprehensible to business people with no computer expertise.

Meanwhile, Burroughs' Detroit head office is showing interest in the system.

Business

Bridgevale digs in and expands its Texas prospects

by Warren Berryman

Digging in...where others have already been

FLOATED on the New Zealand sharemarket eight months ago, Bridgevale Mining Ltd already has plans for expanding its oil and gas operations in central West Texas.

Reaching out from its existing leases near the cow town turned oil town of Abiline, Bridgevale recently picked up an additional 2092-acre lease through its American subsidiary, Bridgevale Energy Corporation. Bridgevale, with a 70 per cent interest in this prospect, will drill it itself — a risk venture not undertaken previously.

While it is highly unlikely the Reserve Bank would allow Bridgevale to transfer venture capital from this country to drill in Texas, Bridgevale has approached American banks and found loan finance available up to 10 times its asset backing.

So long as its luck holds and Bridgevale wells keep trickling out oil and gas the company may leapfrog from one prospect to the next by borrowing against its production-based assets.

But luck has little to do with it, according to Bridgevale chairman Jim Wakefield.

"We're not exploring. We're operating on the periphery of proven fields", he said.

NBR met Wakefield and Ian Burton, director in charge of the Texas operation.

Burton, a West Australian hard rock prospector turned oilman, and spearhead of Bridgevale's Texas operations, expanded on Wakefield's comment boiling the distinction between exploration and operating down to a matter of risk per possible gain.

Central West Texas, where Bridgevale operates, is prime country for the small independant wildcatter. It offers little hope of a multi-billion dollar gusher. But the oil and gas-bearing structures are shallow and stacked one on top of another like layers of icing in a wedding cake.

Most of the oil and gas bearing structures are within 5000 feet of the surface. If the driller finds one of the structures pinched off or too tight to allow the oil and gas to flow into the hole he can always go deeper, hoping for better luck at the next level.

If he's lucky the driller can perforate his casing at every intersection and get a multiple pay well.

This country rock is unfaulted. Thus the risk of losing a hole is minimised. Drilling is cheap, about $14 a foot, Burton estimated.

So how can a peanut-sized $5 million capital Australasian company go into the land of Texas oil billionaires, snap up prospects the Texans left behind after going over them with a fine tooth comb, and expect to succeed?, *NBR* asked.

Burton's answer combined two aspects: "Times have changed and we found a couple Texans short of working capital."

Bridgevale's operation is more like picking up the scraps others left behind than the high risk, bonanzo or bust style of Hunt Petroleum in our offshore Great South Basin prospect.

On the plus side risk is minimised by the following factors outlined by Burton:

- Geological, geophysical and drill hole log data on the area is abundant. The expensive preliminaries were over and done with long before Bridgevale entered the scene.
- Oil and gas prices have increased dramatically since the 1950s when some of the drill holes were plugged and abandoned. In the 1950s there was no demand for gas and oil going for $US2.90 a barrel. Now gas is going for $US2.70 to $2.80 a thousand cubic feet and oil is up to $US40 a barrel.
- The West Texas oil boom brought in the infrastructure for any new operator to tap into. Drill rigs, pipes, spares, are all on the scene. And, as Burton points out, gas pipelines criss-cross the areas to such an extent that Bridgevale's producing wells now have a choice of three competing buyers.

Lack of such an infrastructure in Australia and New Zealand means that an oil find must be big to be worthwhile. Texas even a dribble of oil or gas wil find an established buyer only a short distance away. By comparison Burton said, "if you hit oil in New Zealand or Australia it might take two year to sell it."

- Some of the holes drilled in the 1950s were abandoned after striking "only gas". This previously unsaleable commodity now fetches a good price. Old capped holes can be reopened at a relatively low cost as long as the previous drillers did not drop drill bits and old rubbish down the hole.
- New methods such as gas sniffers and mud-logging (analysis of the chips brought up by the drilling mud) can detect productive zones passed over by previous explorers.
- Some hydrocarbon-bearing zones previously passed by might now become productive due to improved techniques for rendering the rock more permeable. Oil and gas bearing zones are often too tight to allow the oil and gas to flow. These impenetrable zones can be freed up by cracking up the rock or supplying chemical "laxatives". These techniques have improved 100 per cent over the past three years, Burton said.

Bridgevale's ability to obtain loan finance in the United States appears to be dependent on its production record and valuation of secured leases.

By Texas standards Bridgevale's production rate is small. But, by Texas standards Bridgevale is a small company.

The Fulton 1A in which Bridgevale has a 10 per cent interest is producing 500,000 cubic feet of gas a day worth about $1000 a day. Production costs are about $5000 a year, said Burton.

The Nearn No 1 well has just been cased and production is expected from four zones. Bridgevale has a 20 per cent interest in this well. No 1 has just been connected to the pump and is expected to produce oil and gas worth $500 to $600 a day, Burton said.

At the Texas rate of one hole per 40 acres Bridgevale has a lot of drilling to do.

Would Bridgevale be looking for more capital in New Zealand through a cash issue?, *NBR* asked.

"No", Wakefield said. "We could issue more shares to acquire new assets. But we've got nothing in mind at the moment."

Analysing annual accounts: Bunting and Co

by Klaus Sorensen

THE idea of a brush manufacturer, turned horticulturist, corporate rationaliser, property and equity investor, sounds a bit far fetched.

But the latest Bunting and Co Ltd annual report makes the whole idea seem quite plausible.

The report for the March 31 1981 year is a classy affair, bearing the unmistakable imprint of H W Smith, and its two former Brierley employees, Bruce Judge and Paul Collins.

Both men are directors of Bunting, and H W Smith has taken over the management of Bunting in a sort of "new broom" capacity.

In fact, it would not be an exaggeration to say that Bunting has the distinct appearance of a budding Brierley Investments.

Here is a company with lots of cash, considerable financial expertise and a commitment to boost returns on shareholders funds — to make up for all those depressing years in the brush-making business.

Chairman Ben Barnes explains how the decision to withdraw from domestic brushware was "the only practical step towards restoring profitability to acceptable levels."

The 13-month period to March 31 produced a net profit of $347,765 compared with $44,832 for the February 1980 year.

But not only did this effort "reflect the successful conclusion of a difficult period of redirecting the company's activities into more profitable areas of investment" the profit was also a record, and so, too, was the dividend of 14 per cent, for the 13-month year.

The profit and loss account shows the pretax profit, before normal charges, was down from $964,442 to $795,826, but the sale of most of the company's business reduced many of the normal charges against this figure.

Depreciation was down from $238,010 to $65,664 while interest on fixed loans fell from $267,895 to $141,132, though interest on other loans was up from $114,828 to $198,678.

This left a profit before tax up from $292,510 in 1980 to $361,198.

Tax was down from $49,238 to $13,433, and the net trading profit after tax was $347,765, compared with $238,010 in 1980. Extraordinary items of $193,178, reduced the 1980 group profit to $44,832.

To the 1981 group profit is added retained earnings brought forward of $1,613,852, plus a transfer from capital reserves (for the tax-free interim and final dividends) of $227,680, leaving a total of $2,189,297 ($1,703,906 in 1980).

The dividend appropriations, plus a transfer to the capital reserve of $831,555 (from the realisation of the sale of shares in a subsidiary) and a transfer to tax-exempt revenue reserves of $12,500, leave retained earnings of $1,071,735.

The consolidated balance sheet shows a major reduction in liabilities, a fall in current and fixed assets and an increase in shares and investments.

Current liabilities fell from $2,636,693 to $1,508,965, due mainly to a reduction in bank overdrafts, sundry creditors (from $1.2 million to $168,401) bank and short-term loans, and mortgages.

Term liabilities are reduced from $1,776,638 to $659,490, due, amongst other things, to a reduction in first ranking debenture stock from $765,700 to $400,200 (following the transfer of part of the debenture stock due to current liabilities).

Mortgages were also reduced, from $559,817 to $150,000, and a euro-dollar loan has been reduced from $206,569 to $109,290.

Current assets are down from $4,138,686 to $1,975,381 due mainly to a reduction in stocks from $2,885,077 to $87,756.

However, also under the heading of current assets is debtors, up from $1.2 million to $1.9 million.

Barnes explains in his review that the debtors figure relates mainly to the sale of the brushmaking operations "and are due progressively between now and June 1982."

In other words, the company will find it has another $2 million approximately, to invest in a year's time.

The shares and investments category has experienced a sharp jump from $2,519 to $2.3 million, due mainly to the "shares in public companies" of $1.9 million (nil in 1980).

Barnes explains in his review that "an important aspect of this year's accounts is the group's investment in shares in public companies. These shares cost $1,609,220 and at balance date had a market value of $1,940,370."

The main shareholding is a 10 per cent stake in New Zealand Farmers Co-op of Canterbury Ltd.

The shares are stated in the accounts at market value with the difference of $331,150 being represented on the other side of the ledger, as an investment fluctuation provision.

He says this provision has not been included in the year's profit, "but will certainly give shareholders some indication of our capacity to achieve a reasonable performance in the future."

Capital reserves are in a much healthier state, being up from $344,812 to $948,687, due mainly to an increase in realised capital reserves from $76,049 to $814,065, following the transfer from retained earnings to the capital reserve following property rationalisations and sales of subsidiaries.

Barnes says the acquisition of NZ Pastoral Holdings (from H W Smith) "has proven a most worthwhile investment with the planned sale of two dairy units proceeding on favourable terms."

"The remaining farm units mixed pastoral and horticultural and a decision has been made to dispose of the pastoral side leaving a "modest development of the remaining 83 hectare block into market gardening and horticultural activities."

He says Bunting's future activities will principally be in the property and share investment area, "we will have a substantial property base through the ownership of our modern factory in Christchurch (leased to the purchaser of the brushmaking activities, Salmond Industries) and will consider other property investments which offer attractive returns."

He says the directors are convinced the corporate philosophy now being pursued is the most appropriate one and "we believe there are ample opportunities to invest in shares which either have good growth prospects or which allow us to benefit from further industry rationalisation, which will inevitably occur during the next decade."

It's 'everyone in' for swept-up 'rag trader' Bendon

by Klaus Sorensen

THE old *Rag Trade* TV catchcry "Everybody out" hasn't been heard in Bendon Industries Ltd's East Tamaki plant for a long time.

A highly successful incentive scheme — where employees can earn another third on top of their award wage — has helped to keep the company running smoothly.

And unlike the television series, the Bendon plant is far from a sweat-shop, with an impressive array of sophisticated equipment to maintain quality, profits and export prowess.

One of the cornerstones of the business is the Gerber-Hughes pattern-marking and computerised cutting process.

A fundamental of the garment industry is to keep wastage to a minimum and so four years ago Bendon invested in this current system which is still the only one in the country, and was also the first in the Southern Hemisphere.

The Hughes marking system employs keyboards, visual display units and an electronic marking pen to design the pattern layouts for a particular garment.

The trick is to cram all the components for, say, a robe as closely as possible on to a piece of material. Once this is done the Hughes system produces a pattern — like a giant computer printout, with the cutting lines marked on it.

Knitting machines produce fabric for coloured briefs.

Then to the cutting table where the Gerber cutter, which operates from an overhead boom, cuts through the layers-upon-layers of cloth under the pattern.

The vacuum table has a nylon bristle base so the knife can easily cut right through the material into the table without damage. The cutter moves through a pattern with a couple of inches of layered material underneath, in minutes, like a demented go-kart.

It works six times as fast as a person with a manual cutter and according to production manager Murray Rae, "it has the same accuracy at 4.30 in the afternoon as at 8.00 in the morning".

The company can also point to a shape-moulder which it developed itself and now sells overseas, as another innovation.

The moulder puts the bulge into bras using a heat process and cuts the cost of otherwise designing and sewing shape into a bra by 25 per cent.

The company has one of the highest fabric utilisation rates, with more than 90 per cent of all fabrics finishing up in the garments. Bendon has found that the wider the bolt of cloth, the greater the possible utilisation, and therefore it buys 100 inch wide by 300 yard bolts which it handles on some of the largest cutting tables in New Zealand.

Bendon also has a thriving subsidiary making resealable plastic bags for the banking and food industries which operates in a corner of the factory, and produces around 120 million units a year with a high export content.

But across the road from the main plant Bendon operates a thoroughly "Dickensian" looking knitting factory.

Batteries of knitting machines, stretching some 40 feet, chatter out continuous lines of women's pants at the rate of 1.5 million a year. The oily old iron machines each have 14,000 needles and date back to the 1950s (the youngest being a 1958 model).

They started life as pantyhose knitting machines, until new technology suddenly consigned them to the scrap-heap. But Bendon found they could adapt them to manufacture women's underpants in one piece, and they have been knitting away ever since.

Two of the machines were discovered by managing director Phil Hills in a Melbourne basement and he bought them for $1500 each.

The replacement cost of underwear knitting machines today is $120,000 a piece.

Advertisers assured, 'Runner' not 'Athlete'

by Lindsey Dawson

THE publishers of the *New Zealand Runner* magazine, Southwestern Publishing, have circularised their advertisers to advise that the name of the magazine has not been changed to the *New Zealand Athlete.*

The letter follows a recent incident when one of Southwestern's advertisers was phoned by a women from the *New Zealand Athlete* asking for an order number for a full-page advertisement.

When the advertiser said he had not authorised any ads for the *Athlete*, and that his firm advertiaed only in the *New Zealand Runner*, she allegedly told him that the latter magazine had changed its name to the *New Zealand Athlete.*

"I was rather surprised at this and phoned the publisher, Tim Chamberlain, and discovered that it was all wrong as far as he was concerned," said the puzzled advertiser.

Chamberlein told *NBR* he contected the *New Zealand Athlete* office, but was told they knew nothing ebout it.

Later that day and the following morning, the advertiser received two apologetic calls, one from the woman, the other from the publisher of the *New Zealand Athlete*, John Northem, saying that he had juat come out of hospital, was not aware of any misunderstandings and wanted to clear up the matter.

The same morning the advertiser received in the mail a $330 invoice for a full-page od in the *New Zealand Athlete*, which he has ignored.

Northem said the advertiser concerned had probably misunderstood his stoff member, who was "the girl who does the checking to make sure that all ia in order."

He said he had only just taken over the *New Zealand Athlete*, and that because of the advertiser's connection with the *New Zealand Runner*, Northem thought he had "got confused".

"We phoned him back to cleor it up, and we are giving him o free ad in our next issue," he said.

Northem bought the *New Zealand Athlete* from the Tosman Publishing Company. Tosman has closed down its Auckland office.

Companies complained last ycor (*NBR*, May 19, 1980) that they were receiving invoices from o large stable of Tosman publications for ads they neither ordered nor wanted.

New Zealand Athlete was then o Tosman magazine, and so was *Trade Union News*, which has also been taken over by Northem. He used to work for Tasman.

He told *NBR* that the *New Zealand Athlete* would have a small initial print run of about 3000, and would be distributed by Gordon and Gotch. "It is mainly a results magazine which is of interest to people actually participating in athletics," he said.

The New Zealand Runner's latest print run is 17,000.

The Everett video ad

by Lindsey Dawson

KENNY Everett, whose mad video antics were a big part of Telethon, pops back on Auckland screens tonight in the first of four ads for Frank Curulli's stereo-video shop.

Getting Everett on screen was something of a coup for Rod Squires of Squires Advertising, who first phoned Everett in London a month ago to obtain him for his client.

According to Squires, about eight agencies were in the chase. But Everett did not have a work permit for his brief visit to New Zealand.

The solution was to make it a deal for Telethon. Curulli paid for a $500 seat for o disabled child to fly in Air New Zealand's jumbo, and Squires donated a video cassette recorder for auction. Everett worked for nothing in return for the donations to Telethon.

The filming was fast and furious. Everett, says Squires, was very funny and extremely professional, turning out the series of ads in two hours.

Do people hate ads?

by Grev Wiggs

WAIKATO University's senior lecturer in management studies, David Taylor, has reported the result of a recent Hamilton survey seeking the opinion of people on TV commercials.

Predictably, TV commercials received a hammering.

More than 70 per cent disliked most of the ads on television and nearly the same number thought there were too many commercials.

Six out of ten agreed that TV commercials persuade people to buy things they don't really need. While 44 per cent stated that they found most TV commercials in poor taste and very annoying (though 29 per cent took the opposite view), just over 40 per cent found them too long.

The credibility of television commercials was questioned with 94 per cent of people disagreeing that you can always believe what people in the ad do or say.

We say the result is predictable for two reasons.

The first deals with the noture ond function of the subject itself.

The perfect advertisement, if it were ever created, would be invisible ond inaudible to its audience. The image of the product would be so strongly conveyed as to engage the total attention of the receiver and to efface the words and pictures thot are the vehicle for the product message. The reaction would be "I'm interested in thot product" ond oot "I find that advertisement interesting."

So when we ask the consumer questions about advertising or odvertisemeots we are, in McLuhan language, turning the medium into the message. Furthermore, most admen will argue that the opinions we will elicit are not going to be genuine cerebral opinions but conditioned responses.

From schooldays onwards, advertising undergoes a continuous process of denigration by educators, academics, consumer groups, cinema, fiction and economic populists.

Those who should be advancing the case for advertising, or even defending it — the marketera and advertising agents — are too busy using it as a market force.

So advertising has lost by default any respectable standing and few will openly and willingly acknowledge its existence.

Our second reason for believing that TV sdvertising would get a walloping lies with the form of this particular questionnsire. We suggest that Tsylor is leading the witnesa.

Respondents were asked to indicate their level of agreement of disagreement with a question by ticking one of five boxes which were labelled, "Strongly disagree. Disagree. Neither disagree or agree. Agree. Strongly agree." A standard technique.

Let's look at some of the questions.

"You can always believe what the people in TV commercials say or do." It is surprising to us that 2 per cent strongly agreed ond one per cent agreed with thot statement. Delete the reference to TV commerciala and ask yourself if "you can always believe what people say or do?" Can you possibly agree?

"TV commercials persuade people to buy things they don't reolly need." Note the question doesn't ask if it persuades *you* to buy things *you* don't really need but other, and presumably more gullible, people. Had the question been asked in the second person, the response would have been quite different.

Note the phrose "don't really need" which is highly judgmental. We don't really need food processors or automatic washing machines, for example.

"Many TV commercials are repeated much too frequently." This is not so much a statement as a strong assertion. Note the use of the words "many" and "much" which are impossible to define.

We believe that these kinds of questions are biased ond will undoubtedly skew the results.

We believe that the bare outline of the results can be misleading. We believe that the survey results are distorted because of the form of the questions. We have some reservations about the sampling.

We give this research paper a D minus along with the comment "Could do better."

All's fine with Faire

by Lindsey Dawson

PEOPLE in the publishing industry who told Miranda Faire that her magazine, *New Zealand Gourmet Entertaining Guide*, would never get off the ground, are having to eat their words. The first issue of the $4, classy publication has almost sold out.

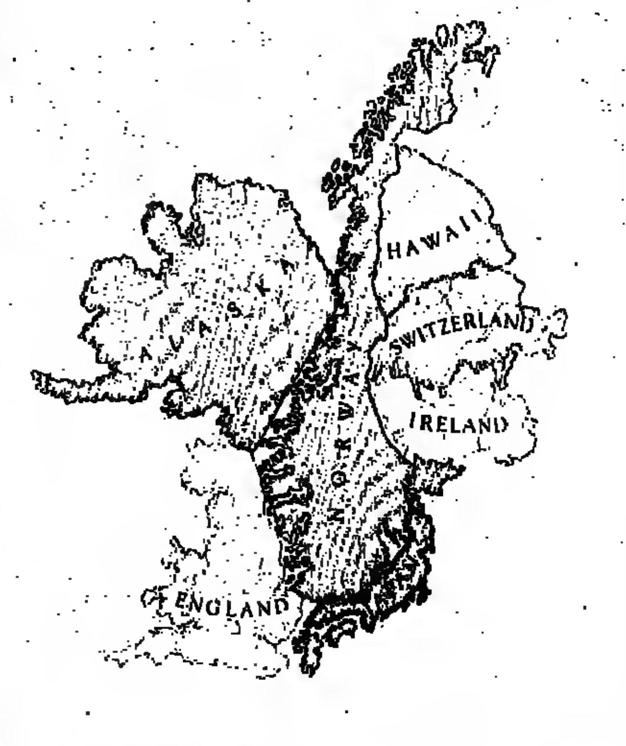
Advertisers are approaching her for space in forthcoming issues and, editor's assistant Sally Meikle, says Faire is very pleased about the success of the venture.

Faire was a newcomer to the magazine business when she sank her own money into producing the 88-page beautiful food and beautiful people magazine. "Many people were doubtful that it would work, and said we hadn't read the market properly, but some are now admitting that Miranda has done a tremendous job," said Meikle.

The company's second publication, a guide to fashion and interior design, is already at the printers and scheduled for an August launching. A second gourmet guide will come out in November, followed by fashion and design again next March. Faire plans to continue with four publications a year.

She intends that it remain an all-New Zealand publication from photography through to printing with the aim of showing all that's best in the good life, Kiwi-style. In an introduction to her magazine she writes: "My unashamed pride in New Zealand is intense. Lengthy overseas trips and the inevitable reassessment of my own country on each homecoming has convinced me that there is a great deal here in which we can rightly take pride."

Her magazine, she believes, is "designed to fill o literary void in our country's culture. The ordinary requires a certain discretion, but the first-class should be seen to be so."



This is what New Zealand looks like to the experienced traveler.

. . . and it did sell

THE eourpuse raeponee to the ennouncemant ol e first place eward in en advertising compation is invariably, "Yeeh, but did it sell?"

In this case it did. This case was an advertisement designed by Dalley and Associates of San Francisco for the Tourist and Publicity Department's North American headquarters selling Enzed as a tourist destination. The department's senior travel commissioner in North America, Len Hunt, says that the ad provoked a coupon response that exceeded all previous records.

To begin with, it won first prize in the American Advertising Federation's 13-state "Best in the West" competition for consumer advertising.

This qualified it for entry in the federation's national competition in which it subsequently won the Addy Award, first prize in the category "consumer magazine — full page colour."

The graphic is a map composite of an island nation showing portions of Alaska, England, Norway, Switzerland, Ireland and Japan melded into one country, over the headline, "This is what New Zealand looks like to the experienced traveller."

The copy relates that the world traveller will describe New Zealand in terms of the unspoiled wilderness of Alaska, beaches that rival Hawaii, fiords like Norway and Alps like Switzerland and so on. Simply, it relates the unknown in terms of the familiar and transmits successfully a story that we have been trying to tell for years of infinite variety.

"Visitor arrivals from the United States are currently growing at the rate of nearly 30 per cent a year," says Hunt significantly.

— Grev Wiggs

Transport

Case for enterprise, rather than railway economics

by Bob Stott

A NUMBER of important decisions relating to future developments in rail transport in New Zealand will soon be on Government agendas.

Some of the projects include the Marsden Point branchline near Whangarei (the environmental impact report on which has already been published), the proposed branchline to serve the steelworks expansion at Mission Bush, and longer term, improved rail access to the central North Island forests.

On this last a Central North Island forestry study is already under way, conducted by local bodies and Government agencies, while yet another rail investment decision will one day have to be made over exports of South Island coal.

This is all good news for economists, who will be busy producing a variety of reports for people in favour of these proposals, for people not in favour, and for people who don't need to be involved at all but who want to be.

Many transport services have been established not because their economics had been shown to be favourable, but because people had enough faith in the future to press ahead - or perhaps they knew what sort of country they wanted to live in and planned to get a desired result.

Julius Vogel saw the establishment of a national railway system as a means of developing New Zealand, of making the country a better place to live in. If the aim of the railway-building era had been to *make money running trains*, construction of the lines would not have been undertaken until enough traffic was available to make those lines pay.

After World War II there was a desperate need for a radical improvement in inter-island transport services. Ever since the railway through from Christchurch to Picton had been opened, a roll-on roll-off rail ferry service had been a technically practical proposition. There was now a through rail route and the concept of the train ferry had been tried and tested elsewhere.

Instead of a ferry the cheaper (in the short term) Rail Air service was established, which postponed the arrival of the first rail ferry until 1962.

The embarrassing success and profitability of the first rail ferry proved conclusively that if the service had been started a decade earlier, it would have been economically viable. Yet a 1947 study of the possibility of introducing a ferry service had decided against it.

The economist tends to work by plotting past events on a graph, to get a neat line showing a trend. That line is projected into the future, and at some point it crosses first the break-even point and then the point at which a worthwhile profit will be achieved.

Such a prophecy tends to be self-fulfilling. With no improvements being made until they are *profitable*, development continues at the same rate as in the past; the economist can note with satisfaction that his forecasts have proved accurate.

In contrast is the entrepreneurial approach. The entrepreneur perhaps takes a risk, in that he decides to provide an improved facility because he believes it will "pay". But he then goes on to make it pay.

When the entrepreneur carries out his programme he finds usually that his actions spur on development, in the way that the first railways encouraged the more rapid development of the areas they served.

When we talk of "decisions based on economics" we are often using the *economist's* report as an excuse for doing nothing. For no matter how many reports, cost-benefit analyses and all the rest, someone somewhere along the line sooner or later has to make up his/her mind.

So let's look at forestry development in the central North Island, the last remaining part of the island without rail transport.

Already the Napier-Taupo road carries "rail-sized" traffic. The Whirinaki pulp mill near Napier requires 500,000 tonnes of Kaingaroa logs each year, logs which are carried over this road. By contrast, the money-losing Napier-Gisborne railway carries only 350,000 tonnes and falls short of a *commercial* profit by $3 million annually (1979 figures).

As well as the Whirinaki logs the Napier-Taupo road carries general goods to and from Taupo and a significant tonnage moving between Hawkes Bay and regions beyond Taupo — the Auckland-Napier-Auckland flow is the obvious example.

The Napier-Taupo road is probably carrying close to 1 million tonnes a year. The railway south from Napier to Woodville carries about 900,000 tonnes a year, and no one has yet suggested that this line is losing money and should be closed.

A Napier-Taupo line would be costly to build — a much cheaper way of gaining access to the central region would be to simply extend the Kawarau-Murupara line. There are easy grades and terrain between Murupara and the south end of the Kaingaroa Forest — the forest crosses the Napier-Taupo road at Iwitahi a few kilometres west of Rangataiki.

A third way in would be to extend the Kinleith line through to Taupo, a 75 km route estimated in 1979 to cost at least $90 million. For that sort of investment to be worthwhile an annual flow of around 1 million tonnes would be desirable.

But a broader view can be taken of the central North Island's transport problems. At least a train-load of wagons each day move from Hawkes Bay to the Auckland/South Auckland/Bay of Plenty area via Palmerston North, and there is a similar flow in the opposite direction. A good deal of traffic moves right through by road, as already mentioned.

A rail link could offer a genuine over-night service between Napier and Auckland for small lots or train-loads and would in all probability generate traffic because of this.

Then there is the strategic angle. The southern Main Trunk is paralleled by the Wairarapa line and the route through Taranaki to Taumarunui offers an alternative to the central section. But there is only the one single-track rail line from Taumarunui north to Hamilton.

A new trunk route from Napier to Taupo and on to Kinleith, Murupara or whatever would provide an alternative in times of emergency, an alternative for overflow traffic, and a direct route for traffic between Hawkes Bay and northern districts.

The output of the central forests is going to double by the early years of the next century, so in the end a railway of some sort will be needed.

Highways get very costly to run as traffic rises and even now, at some $6300 a kilometre annually, the Napier-Taupo road is costing almost $1 million a year in maintenance. Similar sums could be done for other roads in the area.

These, then, are the options in the case of rail access for the central North Island — and they no doubt apply to many other instances too:

- Carry out an economic survey which will no doubt fail to prove that the central North Island must have rail access right away. Prove that if the line was built it would not immediately earn enough to pass whatever are the current tests applied to investment proposals.

Then pour money into equipping the roads to cope with an ever-increasing amount of heavy traffic. When the roads have collapsed under the strain the railway will then be "essential", so build it and ignore what is now an over-provision of roads.

- Just go ahead and build the line. Make sure the job is finished before any further major investment in roading becomes necessary. Encourage development in the region so as to boost rail traffic, but in all probability this won't be necessary as industry will be keen to move in from the day the decision to build the line is announced.

Electrify the railways, rather than feed the smelter

OUR railways should be greatly upgraded and electrified.

This week's reader's suggestion for alternative energy developments comes from John R Perkins, of Tauranga, who argues for electrification of the railways.

At present the economy is being crippled by excessive internal freight and passenger transportation costs. There is a high and increasing expenditure of foreign exchange on importing petroleum products to supply the energy for our internal transportation.

Those excessive internal costs tend to undermine our bargaining position in world markets.

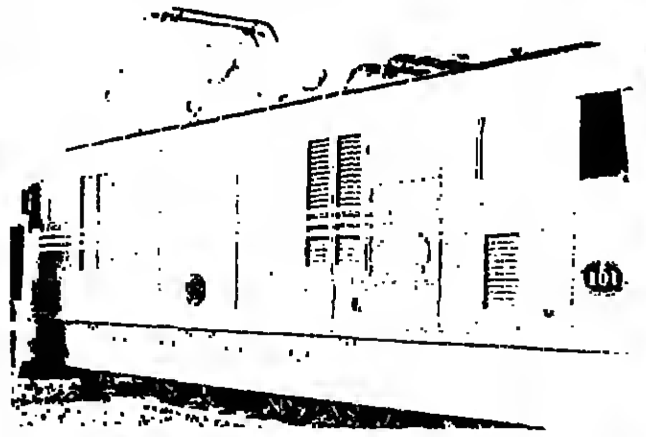
They influence whether our meat, wool, dairy products, forest products, manufactures and all exported goods can be competitive.

Export subsidies simply shift costs to the whole economy and make it less efficient, and thus make it less competitive overall.

We are overgoverned with regulations and subsidies intended to produce supposedly good results, but only those who procure the favourable governmental action, whether a subsidy or special privilege, do benefit.

The Government has a finger in every pie. Our 100-year-old, largest wool manufacturing enterprise collapsed when Government-granted privileges were withdrawn.

Now the Government is asking us to believe we should use a large block of electrical energy in a second aluminium smelter. It tries to justify this through the pretence that there is no alternative use for that energy if we want our economy to grow, reduce unemployment and earn more foreign exchange.



But the upgrading and electrifying of the backbone of our land transportation system could be undertaken as gradually or quickly as circumstances require.

That project could be fitted to the size of our unused resources in manpower, natural resources and financial capacity to bear the cost.

In the 1870s, Prime Minister Vogel recognised that the development of New Zealand's internal transportation system was the key to the sound development of our country. He had the vision and the capacity to move others to see that vision.

That led to the expansion of our railways — one foundation stone upon which our country has been built.

Now our railway system is in the control of the arthritic minds of those who rule us. It tends to be encrusted and creaking with age.

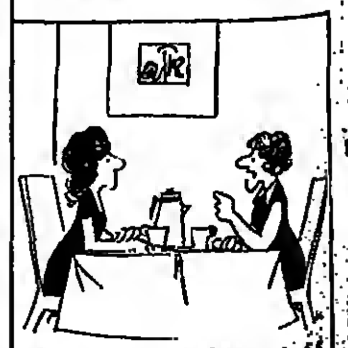
It will take real insight, imagination and human energy to give it a new life. The vision of doing that by electrification could inspire many to make efforts to bring the vision into reality.

We have the opportunity to use our undeveloped hydro-electric energy potential to reduce the permanent costs of our internal transportation. That would reduce the demand for increasingly expensive and uncertain supplies of oil from overseas.

Our railways, should become less and less dependent on costly oil. Their gradual electrification, vigorously and intelligently carried forward, would be much more than an alternative to the second aluminium smelter.

Redevelopment of the railway system is indispensable to reducing the excessive cost of internal transportation.

If we think clearly, and both "think big" and "small is beautiful", we can look forward to a prosperous future. Upgrading our railway system, using hydroelectric energy, is one factor in that development.



"Henry quit working at 55, but he didn't retire until he was 62."

Factor tax: it could work in amended form

"THINK big" incentives for farmers have been announced by the Labour Party in its 1981 manifesto, and party strategists are obviously wanting to talk to farmers' organisations on a factor tax they have in mind.

It is Labour's way of opening the door, and representatives of farmers — who are feeling far from secure in the wake of farm costs rising 50 per cent in the past two years — would be wise to step inside for talks.

Deep down in the farmer's belly, there is a feeling of little confidence about the future. Past incentives, often of the fire brigade variety, have not contained any long-term solutions.

The latest in the form of supplementary minimum price schemes are just more state aid to an ailing industry, and run contrary to those whose feelings march a demand for more private enterprise and a market-oriented economy — which are the feelings of most farmers.

A factor tax approach does offer an avenue of exploration more akin to such principles than the "welfare statism" that is smothering the industry.

As explained so far, factor tax does have many "fish hooks", and extreme resistance can be expected because of this. In fact, it is even likely to be dismissed as unworkable.

But despite that, a proper discussion on its relative merits according to the need for farming to become healthy and less reliant on political handouts, would reveal new pursuits for state-instigated incentives.

The factor tax suggestion meets greatest criticism on the premise that such a tax will be set on the land and a farmer will be liable for payments regardless of whether he makes a profit or not.

A system whereby the state becomes a landlord will never be acceptable to the New Zealand farmer.

But this distaste for one aspect would be avoided by simply doing away with the "stick" and leaving the "carrot."

Could the maximum tax not be set on a per hectare basis in accordance with the assessment of tax liability as is promulgated according to scales established from time to time by the Minister of Finance?

The land would have a classification — not a value — established in line with the known potential. That classification would have the maximum tax liability associated with it. The better the land, the more tax liability.

If the farmer's annual accounts showed he had a tax liability in any year of less than that set per hectare, the lower sum would be paid, not the sum assessed, as in the factor tax.

Any income over and above that, which would be taxed on the maximum per hectare basis, would be tax-free.

A system such as this would have arguments against it, as any system does. But what needs study are the effects on our important agricultural industry, the New Zealand economy and social considerations, including employment opportunities.

It would undoubtedly promote the best use of the land according to profits, which is the correct stimulant for any form of production.

Innovation and enterprise would see farmers going into new forms of production.

Small units of land would be advantaged — more people on the land — and rural communitites would therefore be strengthened.

Factor tax . . . enterprising farmers need not feel sheepish

Farmers would have their own cash reserves for re-investment, or to tide them over market fluctuations. Farmers would have to stand on their own feet.

The system would also be anti-inflationary, which would be a marked contrast to present incentives.

Property values would be associated with the correct buyer judgment criteria, that is the profits from production after taking into account the investment of capital into the land. At present, land prices are at the mercy of the illusion inflation brings in its wake, and has little to do with sound business judgments.

One argument against such a proposal will inevitably arise. Why should farming enjoy a system which is clearly at variance with that enjoyed by other sectors?

But many sections of business or the work force have different forms of exemption and encouragements that discriminate against others not eligible to claim them. Professional people are in business to help farmers, businessmen, companies and wage and salary earners beat the taxman's objectives. Our tax laws have always discriminated.

Another argument likely to arise is whether there will be a tax shortfall if farmers have income that is not taxed.

But farmers are paying only a small percentage of the total direct tax take. Subsidies and other forms of assistance almost equate with the tax paid.

Such subsidies would have to be phased out in the system outlined, and it is not hard to imagine the average taxpayer in New Zealand being considerably better off.

New Zealand has serious economic problems to solve, and they will not be solved through political cliches of thinking big or small.

But if New Zealand's economic strength is acknowledged to lie in the land, acceptable solutions are within grasp for those with the political courage to reach out.

Insurance

Pacific Charger — multi-million loss and warning how real the 'perils of the sea' can be

by John Sloan

THE Pacific Charger, which was stranded at the entrance to the Wellington Harbour has resulted in multi-million claims for marine insurers and shows just how catastrophic "perils of the sea" really are.

The ship, on her maiden voyage, became stranded, and then pounded on rocks, at the entrance to the Wellington Harbour.

The problem of salvaging, let alone repairing, the stricken ship rapidly assumed alarming complications. The steel and cat parts in the submerged holds were rusting; oil from the bunkers was gradually leaking on to the seashore; the temporary road built to the ship's side was partly washed away; and the stranded ship was still being pounded by heavy seas.

Yet, the final successful salvage attempt depended on a combination of tugs, ground tackle, emptying ballast tanks, and the most important element of all — heavy seas to lift the ship off the rocks.

The Pacific Charger's plight focusses on the peculiar exposures which must be considered by shipowners. While total losses or constructive total losses are rare they can occur.

The recent classic example remains a large container vessel, the Munchen, which sank without trace in 1979. So it is dangerous for shipowners to assume their vessels will never become a total loss.

Another related problem is the enormous costs to repair major partial damage. Although no public estimates have been made for the Pacific Charger, it is reasonable to assume the salvage and repair costs will cost millions of dollars.

While it's easy to say "insurance covers the loss" the final cost is reflected in insurance premiums which are passed on by way of increased freight charges or higher premiums.

Then there's the critical exposure of liability for damage to cargo — often valued at millions of dollars.

If the shipowner is judged liable, then, depending on the laws applicable, he may be forced to pay substantial compensation to the shippers.

Another exposure is akin to "loss of profits" — obviously when a ship is stranded, sunk, burnt or damaged there is an immediate loss of earning power, coupled with the continuation of overheads.

No one knows if the owners or charterers of the Pacific Charger are insured for loss of freight, because the ship will be out of commission for months being salvaged and repaired, there must be a substantial loss of earnings to somebody.

So, the Pacific Charger incident reinforces a basic home truth of insurance — you only find out how good your protection is when there's a major claim.

Investment barometer

LIFE offices are often regarded as financial juggernauts which get bigger by the inexorable, compounding growth of their multi-million assets. But they can't afford to become financial dinosaurs and get outmanoeuvred by smaller, more agile financial animals. Life offices have become more open in revealing their affairs, attitudes and problems.

The annual reports published by National Mutual and AMP contain perceptive comments on factors influencing major financial institutions.

In commenting on the current investment environment, National Mutual remarks, "Traditionally election years have seen expansionary monetary and fiscal policies and this year seems to be no exception. Recent Government announcements include: increased supplementary minimum prices for agricultural exports; increases in Government capital expenditure; subsidies to encourage employment; discussions which could result in balancing tax reductions against wage increases. The annual Budget (on Thursday) is also expected to be expansionary, further lifting public expenditure and introducing personal taxation reductions."

But such realistic assessments are balanced with appreciation of firm Government action.

AMP's comments on economic conditions include: "The country faced two significant crises this quarter, both of which turned out better than anticipated. The first was the Temuka 'foot and mouth' scare, which clearly demonstrated that the measures planned and taken by the Ministry of Agriculture and Fisheries to cope with the problem were effective and executed efficiently. The success of this operation will not have been lost on the country's trading partners.

"The other crises related to the industrial relations field with pressure from militant unionists resulting in a confrontation with the Government over legality over some forms of picketing. The decisive manner with which the Government dealt with this issue and the unprecedented public involvement resulted in a speedy solution to the problem."

Both AMP and National Mutual express confidence in the future. The National Mutual said: "Positive impetus, however, should come from the construction phases of major energy based on projects recently planned, this should add strength to the economy for a number of years."

The AMP remarked: "The country now appears to be poised for a period of sustained growth.

"The hydrocarbon discoveries at the McKee and [illegible] wells give the cautious optimism and with the decisions to proceed with the major energy developments likely to be made shortly, the country's medium-term outlook is quite bright."

Sharemarket activity [illegible] generated substantial gains for life offices, but also prompted remarks on "headline" aspects in the sharemarket.

AMP remarked: "Interest in the sharemarket is still high and the likelihood of further takeovers and mergers occurring during the year share prices will probably continue to rise steadily during the next quarter."

Commenting on interest rates allowed for Government and local authority stocks, National Mutual remarked: "We continue, however, to believe that there is economic justification for overall upward movement in rates, and foresee possible rises in 1982 as the Government seeks to fund its Budget deficit."

But it is in the property section where the most perceptive remarks strike home. National Mutual said: "Property development in the Wellington central area could soon be reaching a peak. However, there are indications that demand pressures may encourage new developments in Auckland central area.

"There remains little activity in the commercial industrial property market, with few suitable propositions becoming available. Over the next few years we anticipate increases in property values as economic growth increases demand and as costs for new buildings continue to be above prices for existing properties."

Higher yields

MAJOR life offices have reported increased investment yields, specially in their managed equity — investment-linked superannuation funds.

The National Mutual earned 27.4 per cent in its equity-linked superannuation fund for the year ended March 31: the AMP reported earnings in its similar fund of 25 per cent for the year ended December 31 1980.

Analysis of the AMP and National Mutual results in their equity-linked superannuation funds reveals interesting parallels:

- Both funds are based on a careful spread of investments in shares, property, mortgages and public sector securities.
- Shares earned excellent returns for both companies. National Mutual is concentrating on selected companies in the forestry, finance and rural sectors. AMP did not publicly reveal its current intentions but predicted more merger activity.
- Property investments, according to National Mutual general manager Gil Hoskins, have "good prospects in the long term." Both National Mutual and AMP report improvements in property related investments.

The life offices' equity-investment linked superannuation funds are proving an attractive vehicle for clients seeking secure investment returns.

Umbrella liability

UMBRELLA liability insurance is not, as the name might suggest, the insurance of liability arising out of umbrellas wielded by little old ladies at football matches, but relates to the insurance of the "grey areas" which sometimes exist in a multiplicity of liability policies arranged for large organisations.

Companies with diverse risks have equally diverse liabilities and, if they are multi-nationals, they are often exposed to a multiplicity of public liability claims arising anywhere in the world.

While the companies may arrange their public liability insurance protection adequately, there may still be minor gaps of cover in or between the various policies arranged.

It is for these kinds of gaps that the umbrella liability insurance policy has been designed. To mix metaphors, "umbrella" liability policies act as the "safety net" for companies.

One New Zealand concern which has an umbrella liability insurance policy is the Shipping Corporation of New Zealand. David Littlejohn, manager-administration of the Shipping Corporation, told *NBR:* "Our marine liabilities are potentially both very significant and diverse — there's collision damage by our vessels . . . damage to cargo in our possession . . . operational responsibilities under charter agreements . . . liability for container damage."

Littlejohn said there was also liability for death or bodily injury, or property damage overseas, resulting from the company's containers which were located throughout the world.

He said shipping companies' liabilities normally were insured by a combination of marine hull insurance and special P and I (Protecting and Indemnity) Mutual Club policies.

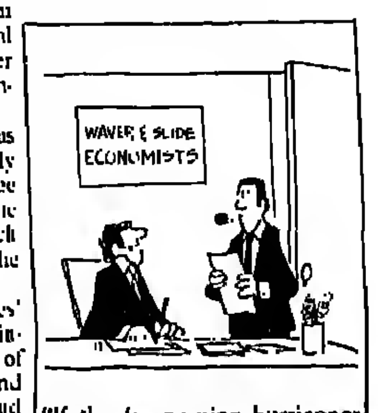
"These policies provide good comprehensive coverage, but our activities are particularly diverse, and there's always the problem of grey areas, policy exclusions, plus new risks and liabilities that are not always automatically insured by the primary liability policies," he said.

The Shipping Corporation is often entering into new trades and relationships and these both demand constant attention to new risks and different liabilities.

"We are sure we have covered our principal liabilities adequately but to further guarantee protection we need an umbrella liability policy and we decided to negotiate cover for this with our insurers."

Littlejohn emphasised that the Shipping Corporation had a practice of accepting self-insurance by way of claims deductibles wherever feasible.

"We see this as a means of emphasising to staff the need to control and minimise losses when they know we must pay the first amount of any loss," said Littlejohn. "By accepting realistic claims deductibles, we're in a position to demand and receive premium savings from our insurers."



"If they're naming hurricanes after men, do you think it would be OK to name recessions after women?"

Why France will continue N-tests in the Pacific

by David Fishlock

WITHIN days of announcing a fraaze on nuclear weapon testing in tha South Pacific, the French Delence Ministry appenrod to have second thoughts, and asaured tha puzzlod world — nnd a dismayed New Zaaland — that the atop wos only tempoinry. But thare are preaaing tachnical and scientific reasons why nuclear powers taat their deadly arsonels.

BRITAIN'S first nuclear weapon — a bomb — showed a ntarked reluctance to leave the V-bombers.

Conventional bombs, nose-heavy because of a vast amount of steel casing round the high explosive, fell readily from the bomb bay.

The nuclear bomb, although very big, was essentially a few kilograms of plutonium wrapped in uranium. So different were its ballistics that it tended to hug the aircraft instead of folling away clesnly to the ground.

Nuclear tests are carried out for one main reason and other lesser reasons. The main reason is to test the complex package put together by the nuclear warhead designer.

So complex is the physics of nuclear reactions that today, 36 years after the first nuclear explosion, even the most experienced weapon designers still cannot be absolutely certain of their calculations. Tests do go wrong.

A lesser reason for nuclear weapon tests is to test modification of a weapon during a lifespan which may be as long as 20 years. The designers want to be sure that the modificiation has upset nothing else in such s complex system.

A third reason is to test an ageing stockpile. This is done only rarely, however, because so little reliable information can be gained from a single weapon plucked from a stockpile and then necessarily interfered with extensively to adapt it for an underground test.

Underground testing was begun in the 1960s, as the United States and Russian response to the Partial Test Ben Treaty forbidding atmospheric explosions. It was only partial because both nations knew they would need tests if they were to develop new weapons.

France was not party to this treary and continued with atmospheric tests. Only recently has it gone underground.

In one sense, the treaty complicated life considerably for the weapon designers of the nuclear weapon states, for they could learn a lot from atmospheric emissions sbout the lines of development of each other's designs. But the political pressure to stop the radioactive pollution was overwhelming.

As a result the United States — and presumably Russia — has developed a remarkably sophisticated system for testing weapons underground, in man-made caverns with air pumped out to simulate conditions high in the atmosphere.

Not least of the tricks of this technique is one which allows the scientists to expose nuclear weapon systems to the gigantic blast of "prompt" radiation — X-rays, gamma-rays and neutrons — delivered by a thermo-nuclear (H-bomb) explosion.

This radiation blast not only administers what one scientist calls a "dirty great kick," more vicious than the shock of launching the weapon, to anything in its path. It can slso interfere seriously with electronic circuits, and nuclear weapons depend totally on electronics.

The trick of successful underground testing, therefore, is to use it simultaneously to demonstrate a new design and to see how that design will itself resist the explosion of an enemy's nuclear weapon, say from an antiballistic missile far out in space.

It means, in effect, finding a way of allowing the blast of "prompt" radiation from the nuclear explosion to strike the systems being tested for "radiation hardness", yet being sble to slam the door shut against debris from the underground explosion, which otherwise would demolish the test systems.

Britain uses the US underground test facilities in Nevada. It conducts an average of about one test a year. It stopped testing from 1965 to 1974, but continued to discuss the results of US weapon tests with American weapon designers.

Britain resumed weapon testing six years ago, with the first test of the $4000 million Chevaline programme, leading last year to the British Government's announcement of a successful new Polaris worhead.

France has no such collaboration, with the United States or any other nation, on nuclesr design which would allow its designers to weather a long hiatus in weapon testing.

David Fishlock is a writer for tha Financial Times, London.

Mervyn Probine: getting value from public money

by Richard Fletcher

MERVYN Probine says that when be began work at the DSIR's Auckland development laboratories, he never expected to be anything but a scientist.

The last thing he eovisioned then was that he would eventually become chairman of the State Services Commission, the major public sector employing body.

He moved to Wellington in 1947, and completed a PhD in physics st Leeds University in 1959 while under a National Research Advisory Council scholarship.

After his return to Wellington in 1967, Probine was appointed assistant-director of the DSIR's physics and engineering laboratory, which suggests that by then he was becoming more interested in management and administration than studying physics in the lsboratory.

Asked why he bsd made the change to the management area, Probine said he could feel the development of new skills while he was head of tbe physics and engineering laboratory.

And this interest in management continued through his move up the public service ladder to assistant director-general of the DSIR in 1977.

He was appointed a member of the State Services Commission two years later. Since then, Probine says, he hss become involved in a different type of management.

The DSIR was primarily concerned with what he calls technical mansgement and research. The commission focusses on wider management questions, and to a degree, he says, it involves greater personnel management than did his DSIR job.

At departmental level, management responsibility lies with the permanent head of each government department, but the commission has a more general oversight. One of its major tasks is to ensure that civil service management generally is both efficient and effective.

To achieve that goal, Probine points to the possibility of improved planning and management information systems so that public service managers end permanent heads know they and the general public are getting value for money from their employees and the service they aim to provide.

A new budgeting system, "cash limits", was introduced last year. It requires departments which want to begin new activities first to find the equivalent savings in some other area of operation.

Probine said this might not be going far enough. The budget exercise needed to be more firmly rooted in a three-year planning base.

Even so, the new budgeting system so far has seen more thought going into planning new policies.

Recent trends in civil service administration also include greater emphasis by departments and the commission on periodic reviews of departmental performance. The State Services Commission, in pushing for this approach, has stepped up collaborative reviews.

Representatives from departments, the commission and retired people from either the public service or the private sector, go into departments and examine activities in whole or part.

Thirty-five such studies were uodertaken lest year, said Probine. Management Information aystems in the Justice Department, the Forest Service generally, and Education Department staffing are currently being reviewed.

Probine said he saw these reviews as being more important than recent joint efforts with tbe Audit Office to set up departmental internal auditing, because the reviews are aimed at changing future operations, rather than at finding out what happened in the past.

On a more individual level, Probine said he believed the movement over the past two years between middle and higher level public servants, and their counterparts in the private sector had been helpful in developing new types of management initiatives in the public sector.

But despite "sinking lid" policies and the continued need to minimise public sector costs, Probine doubts that the public sector is losing some of its overall effectiveness.

The "sinking lid", he said, had two aspects. One was the notional reduction of departmental staff by 1½ per cent annually, but balanced against that was the possibility of reallocating those positions to priority areas in other parts of the public service.

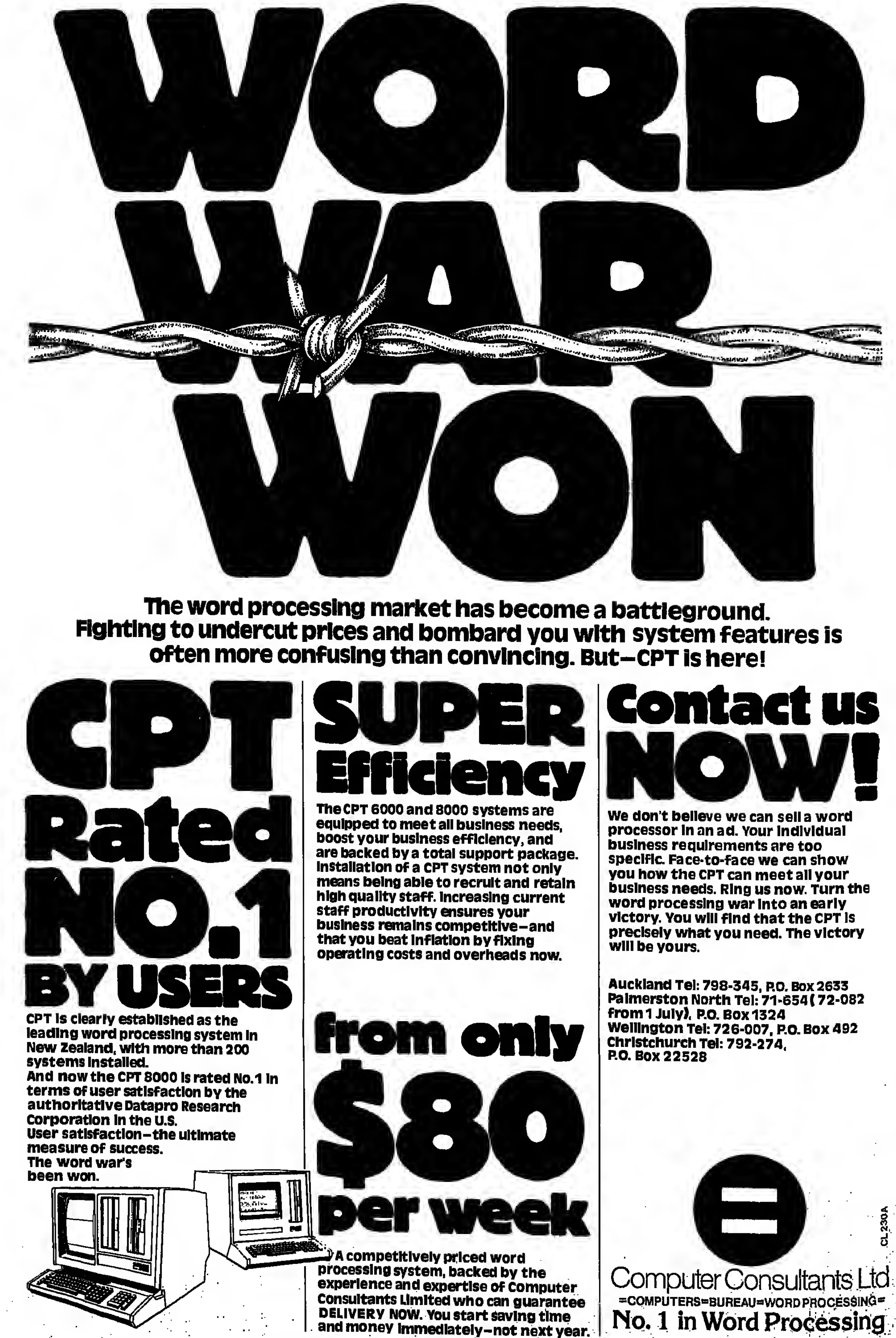
Probine said figures for the past five years showed that the public service had not decreased in size; rather, it had increased by 0.2 per cent on its permanent staff ceiling.

The government hsd also created special ceilings for the training of Maoris and Pacific Islanders.

There were also special training and unemployment ceilings and ceilings for the handicapped. These meaures, he said, added about 2500 jobs.

Probine noted the major role of the public sector was to implement government policies — even where government policies can have a major impact on the public service.

A particular example is the trend towards farming out what was once public sector work to private contractors. Probine said the commission had to minimise the effect the policy might have on individuals and the service as a whole. "If it is Government policy to use the private sector we have to follow it."



Letters

TV coverage of tour

AS a footnote to his article on the Broadcasting Corporation's decision on Springbok rugby tour coverage, *NBR* states "Warren Mayne is an *NBR* journalist who has written on broadcasting matters for 13 years." Perhaps you should also add that his articles have often attracted corrections on matters of fact on the same subject.

Here are some more to add to the list:

(1) Mayne states that rugby tour negotiations "right up to the present Scottish tour" have been left in the hands of heads of sports departments. He's wrong. The terms of the Scottish tour were discussed at board level, and the go-ahead given, just as the previous television contract was a board matter three years ago.

(2) Mayne states that television's programme controller would have expected "the usual carte blanche" to decide the fate of an imported documentary called *Death of a Princess*. He's wrong again. It is the head of programme standards who has decision over the acceptability or otherwise of imported programmes according to broadcasting's standards.

Death of a Princess was not a precedent in its handling by the corporation, either. As a matter of fact, the previous governing board of public broadcasting — the old Broadcasting Council — was involved in a similar decision, through the head of programme standards, over an earlier imported documentary, *The Japanese Experience*. Certain cuts in that programme were called for by the board, through the head of programme standards.

(3) Mayne states that the corporation "shelters" under the advice of Foreign Affairs on the implications for broadcasting in the Gleneagles agreement. He's wrong. The fact is that the corporation simply obtained expert ruling about a subject on which it had no special knowledge or competence. Less prejudiced observers may see that as acting with responsibility.

The corporation takes full and independent responsibility for its decision.

(4) Mayne refers to "the wider public interest which Cross has cited when allowing Muldoon free TV spots to announce and justify decisions in the industrial field". This is a wild and misleading generalisation, presumably based on a lack of understanding of the memorandum on broadcasts of political statements, published in the annual report of the corporation for the year ending March 31, 1980. Briefly, this accords the Prime Minister, the Leader of the Opposition and the leader of any other party represented in Parliament certain rights of access to television on matters of "sufficient national or international importance". The full memorandum has been accepted by the three political parties and follows a long-established and successful BBC precedent.

(5) Mayne suggests that the corporation's "reduced" coverage of the Olympic Games was a reflection of Government policy. He's wrong yet again. The facts, as explained at the time, were that the level of coverage was solely a reflection of a legal entanglement affecting the rights of many nations involved in a disputed Asia-Pacific Broadcasting Union agreement. As party to the dispute, New Zealand was not allowed by the IOC to increase its coverage, despite a personal appeal to Lord Killanin. We would have had 10 times the coverage, if it had not been for the international tangle over rights.

(6) Referring to the Olympics, Mayne writes "this was a decision taken at board level instead of by middle management". Wrong, once more. Coverage, as explained above, was determined by international contractual entanglements which left New Zealand finally powerless, whether at board or middle management level.

Mayne seems to think that it is unusual that decisions affecting the public interest and binding contracts involving considerable sums of money should be subject to the approval of a governing board of broadcasting. Let me assure him that no executive of any competence would see this as anything but normal practice.

Charles Martin
Public Affairs Manager,
Broadcasting Corporation.

Warren Mayne replies:

(1) True, all contractual arrangements go through the board, but the actual details are hammered out in the executive-level preliminary negotiation stage. Mr Martin does not explain why the board deferred this decision for three months, then issued a special statement far more detailed than anything three years ago.

(2) The head of programme standards does have the right to cut or recommend non-screening of programmes bought by the controller of programmes, but in the Death of a Princess case the board took up the matter first, then specially commissioned a report from the head of programme standards, who had not seen the film. The corporation board's initiative makes this case a precedent. The Japanese Experience involved an internal disagreement over cuts between a then-independent TV1 and a Broadcasting Council executive.

(3) The BCNZ made particular mention of Foreign Affairs advice in its statement on the rugby coverage. The corporation seemed to find that advice highly relevant to its decision.

(4) The first Muldoon "free spot" (in commercial terms, that's what it was) was broadcast at short notice, and the memorandum drafted afterwards to cover repeat performances. "Wider public interest" seems a fair summary of "sufficient national or international importance".

(5) The Asia-Pacific Broadcasting Union agreement came into dispute because some APBU member countries, including New Zealand, withdrew or lessened their sporting participation in the Games — the result of Government policy over the Soviet invasion of Afganistan. Had there been no governments with policies to boycott the games, TVNZ presumably would have stuck to the ambitious TV and radio coverage it was planning, as senior APBU partner in the deal, rather than attempt to send to Moscow one radio reporter from London.

***Mayne* accepts that the board must make controversial decisions, rather than expose middle-level executives who normally undertake detailed negotiations which customarily are endorsed as a matter of course by the board. The board is appointed to accept responsibility — and reasonable criticism of these major decisions. — Editor**

In defence of Muldoon

COLIN James's article in *NBR* (June 15) illustrates perfectly the extraordinary anti-Muldoon attitude that permeates so much New Zealand journalism and unfortunately your otherwise excellent newspaper in particular.

We learn of Muldoon that ". . . after one of his periodic spells of restraint, the familiar intemperance was waxing again. The volcano was developing a bit of a bulge and emitting the odd belch of smoke and ash. That he has now gone away for three weeks may have spared us a messy eruption."

And earlier . . . "But Dougherty got the contemptuous and contemptible treatment from the Prime Minister we have become numbingly used to over the past five years."

Now an outsider reading this and given only the knowledge that Dougherty was a journalist who had asked the Prime Minister a question at a press conference might reasonably assume that Muldoon's response had been to leap over his desk, punch Dougherty in the nose, wrestle him to the floor and jump up and down on him.

In fact, of course, Muldoon, in response to a rather silly question from Dougherty had responded mildly, "Oh come on. Don't be silly."

All of this related to the outrageously dishonest speech by Jim Knox in Europe, in a trip paid for by the New Zealand taxpayer which Colin James at the end of his article accurately describes as ". . . riddled with extravagant left-wing rhetoric unbecoming of the leader of a respected organisation."

Your newspaper's credibility is seriously eroded by this sort of flamboyant prejudice but most of all it insults the reader's intelligence.

Bob Jones
Lower Hutt

James is not prejudiced against Muldoon and has frequently acknowledged his abilities. For example, some quotes from one of his articles in our recent Outlook:

"Muldoon has shrewdly and probably intuitively recognised that any old CER will not do . . ."

". . .he never moves until he has all the information at his fingertips . . ."

". . . his uncanny and close-to-unerring ability to identify and single-mindedly pursue the national interest in international matters . . . This ability irks foreigners at times but they are coming to respect him for it . . . Some think he has a better grasp of where his country's interests lie than his counterpart, Malcolm Fraser."

"He is that sort of negotiator; it is why he usually wins."

— Editor

Management

Restructuring the NZ economy: peril and possibility

THIS article — one of a series by Wellington systems consultant Benjamin Davis — offers no glib or simplistic solutions to serious and complex problems. It does consider what is meant by "restructuring" and the implications; it argues that restructuring is dangerous and will result in worse, rather than better, conditions if not performed properly; it looks at the reasons why we have to restructure; and it suggests the best way to go about it.

RESTRUCTURING means to arbitrarily bring about economic change and to force that change into a shorter period of time than would be otherwise required.

Implicit in that definition are two key considerations:

● The artificial way in which economic change decisions are made in a restructuring situation;

● The consequences of speeding up the process of change.

During the normal process of change, a decision that would significantly alter the *status quo* for some ecomomic entity (a company, an industry and so on) would almost always originate from inside the organisation(s) most directly affected. When a significant change does take place (for some complex of reasons) there is a ripple effect through the economy (like a stone tossed into a pond).

The organisations and economic factors directly and closely associated with the change are affected first, and to a greater degree than those that are indirect and remote.

The key characteristics of a "natural" process of change are:

● Significant change is neither arbitrary nor rapid;

● The "ripple effect" generally runs its course (the pond is allowed to become calm again) before another significant change takes place;

● The degree of impact, timing and completeness (all factors that should be affected are affected) is natural and normal. An analogy can be drawn with the bodily functions of a healthy person — heartbeat, respiration and so on take care of themselves without the need for conscious human intervention.

If "natural" is a good word to represent the normal process of change, "artificial" (although not entirely satisfactory) is appropriate for restructuring. That becomes clear when the characteristics of decision-makers under "natural" and "artificial" conditions are contrasted.

With "natural" change, the significant change decision is internal. It is made by the top management of the organisation, and the decision is likely to be correct *for that organisation* because:

● The decision-makers know their organisation and the decision affects their self interest;

● No organisation totally controls the environment within which it operates and good judgment dictates that a decision will not be made unless the relevant environmental factors are considered favourable.

● Given the importance of environmental factors, significant change decisions (such as a major investment programme) tend not to be made during periods of uncertainty. In terms of the stone-in-the-pond analogy, such decisions tend not to be made while the ripple activity from other decisions make the pond surface (economic conditions) rough and unpredictable.

Under "artificial" restructuring conditions, the key characteristics — such as who makes the decision, the extent of decision-makers' control, and the timing of decisions — are markedly different.

The decision-maker(s) are not the top management of the organisation(s) most directly impacted by the decision.

The significant change event is most likely to be in the environmental factors, rather than within those organisations subject to the environment.

Because the decision-maker is not part of the organisation most affected by the significant change event, ripple activity (economic uncertainty) does nor necessarily defer making the decision.

The decision-makers in the artificial conditions of restructuring are the top echelon in the public sector. They make decisions about tax rates and categories, or about the price of electric power: they change postal rates: they establish and dis-establish export subsidies and import licences; they even determine the absolute right for a given organisation (or even an industry) to exist.

Throughout the entire process, the income and position of the decision-makers are unlikely to be adversely affected by poor-quality decisions.

Thus restructuring is dangerous, because many more decisions — and more difficult decisions — are required than under the "natural" conditions of a normal process of change. Bad restructuring decisions are likely to have disastrous results because:

● The scope (area of impact) of environmental type decisions is great. Such decisions are not stones in the pond that create ripples: they are boulders that produce waves.

● That very scope means that decisions gravely affect a large number of organisations and economic factors. The public sector decision-makers cannot possibly know the types of businesses well enough to assess with the necessary precision how they will be affected.

When a decision-maker's own income and position are not directly and proportionally affected by the correctness of decisions made, the quality of those decisions is most assuredly reduced.

So why restructure?

The economy must be restructured because the New Zealand environment has had too many artificial elements for too long. Those artificial elements have kept our environment quite stationary while the world environment was changing.

The creation of OPEC and the first sharp rise in oil prices (1973-74) only lit the fuse. The cases of high explosive that now dot our economic landscape are the result of public sector decisions (possibly correct at the time they were made).

We now have to restructure because the country no longer has the luxury of sufficient time for a normal process of change to take place.

It should therefore be clear that New Zealand must force arbitrary change in a relatively short time period, and thereby forego the built-in natural safeguards of the normal process of change.

How do we compensate for the absence of those safeguards, and therefore increase the probability that the correct decisions will be made, in the correct sequence, and with proper timing?

The best answer is to emulate the method of control and techniques of management devised for the spectacularly successful large and complex aerospace systems. Restructuring the New Zealand economy has striking similarities to a large research and development (R & D) programme.

● In both cases, there is a true systems environment, and programmes within a systems environment require special handling.

● In both cases, the long-range programme goal is identified as a set of desired characteristics. The shorter projects within the programme, as they proceed, identify the end product that will achieve the desired characteristics.

These examples complete the comparison:

● For an aerospace programme the performance characteristics could be those required for a soft landing on a distant planet. At the start, neither the decision-makers nor the programme staff would have a clue as to what type of vehicle or vehicles would have to be developed to meet the performance characteristics.

● For a restructured New Zealand economy, we should also have a set of desired characteristics: desirable figures for the balance of trade, gross domestic product, employment levels, and so on. We should, at the outset, have only very tentative ideas of what sets of economic structures could meet the performance characteristics.

Cash tight for management game teams

TEAMS in the first round of the national Business Management Game, run by International Computers (NZ) Ltd in association with *National Business Review*, now have an extremely good idea how it feels to run a company that is strapped for cash.

"The entire first round had all teams working hard for cash until periods 5 and 6," game administrator Vaughan Chetwynd, of ICL's education and training division, says.

Highest profit was recorded by a team from the Reserve Bank with a profit of $17,782,000.

The results mean that 100 teams have gone forward into Round 2 of the national game. However, this year ICL has organised a "Plate" competition for teams which did not go through to the second round.

The second round of the national Business Management Game starts tomorrow while entries for the "Plate" competition will close on July 24.

	Profit in $million
Transpak Industries Ltd	9.040
NZ Express Transport Ltd	3.526
An Auckland publisher	12.339
Wormald Brothers (NZ) Ltd	11.298
David Reid Data Products Ltd	6.501
JRP Syndicate	8.732
Dunedin accountants	12.608
MOWD Wellington	11.562
Timber company in Auckland (a)	13.614
Timber company in Auckland (b)	14.031
MOWD Napier	9.440
Rosebank Davies Industries Ltd	4.601
NZ Railways management services	8.556
Dr P Chapman	6.399
Ministry of Transport (Wgn)	11.399
NZ Railways (Fin accts)	11.678
Alan Phillips (Wgn)	10.182
Freightways Computer Services	5.918
Wellington accountant	3.264
Otago Polytechnic	8.743
Correspondence School	9.606
W R Grace (NZ) Ltd	12.883
Advanced Meat Ltd, Gisborne	11.326
Wilkinson Wilberfoss	9.863
MOWD Turangi	9.160
Ford Motor Company	8.827
NZ Farmers Fertiliser Co	9.366
Napier accountants	12.168
Caltex Oil NZ Ltd (2)	13.211
Invercargill accountants	10.272
Greta Valley Finance Co	8.933
Marlborough Viticulturists	8.854
Group Rentals NZ Ltd	7.582
Millers Ltd	8.033
Tasman Pulp & Paper (a)	8.450
NZPO HQ	6.721
Tasman Pulp & Paper (forestry)	8.364
AMP Acceptances (NZ) Ltd	11.412
Shell Manufacturing NZ Ltd	9.932
Dept of Statistics	4.642
BP (NZ) Ltd	7.409
Christchurch accountants	1.383
Unilever (NZ) Ltd Hastings	8.676
Kennedy Newell & Stewart	11.805
JVT Baker Ltd	11.833
ICI (NZ) Ltd	6.673
Beecham Research Labs	8.047
Healtheries of NZ Ltd	5.061
Merck, Sharp & Dohme NZ Ltd	7.533
Winstones Ltd	10.479
Waitaki NZ Refrigerating Ltd (1)	8.054
Waitaki NZ Refrigerating Ltd (2)	8.082
Canterbury Savings Bank	10.253
CIT Upper Hutt	11.888
BP Oil (NZ) Ltd	10.494
Inland Revenue Dept	8.402
G L Bowron & Co Ltd	9.058
Salmond Industries Ltd	9.112
AHI Plastic Film Co (2)	10.423
NZ Finance Ltd Hamilton	10.713
MOWD Auckland	10.892
Wairarapa Hospital Board	6.783
Wellington accountants	6.663
Radio NZ Auckland	4.409
CIT Upper Hutt (Tourism)	5.201
Unilever NZ Ltd	7.931
MOWD power division	10.657
Ashburton accountants	15.878
Auckland accountants	10.431
Reserve Bank	17.782
Cowell's Pavlova Kitchen	14.366
Puketahi Holdings	13.318
St Cuthberts College	7.243
Rohm and Haas (NZ) Ltd	8.663
Ruapehu College	7.006
Fletcher Industries CSP divn	2.938
Govt Life Insurance	11.682
Todd Motors Ltd	14.681
ICI Tasman Ltd	12.141
Todd Motors ltd	11.527
Lime and Marble Ltd	11.700
MOWD Turangi	10.015
Govt Life Insurance	10.396
P C Henderson (NZ) Ltd	14.084
3M (NZ) Ltd	11.631
An Upper Hutt holding Co	5.056
Morrison Cooper & Partners	6.002
NZMC	10.279
Far East Trading Co Ltd	3.843
Komps Konsolidated	11.325
Dunedin accountants	10.229
Winstone Wallboards Ltd (2)	9.131
Winstone Wallboards Ltd (1)	10.067
Fisher & Paykel refrigerator divn	12.217
Schwartz Ltd	10.742
Heylen Research Centre	7.689
Graham & Dobson	8.385
AHI Crowe Crystal Ltd	5.209
LEP International Ltd	7.171
Southern Cross Medical Care	8.793

Health

The potato is ace when the chips are down

by Belinda Gillespie

FORGET about alfalfa and ginseng tea. If you're looking for the perfect health food, the potato has it all.

Though spurned by dieters (generally fat) potatoes can make you thin. Brian Shorland, a New Zealand biochemist and nutritionist, is an advocate of the potato's potential for peeling off kilos and has suggested that we use them instead of some of the high-fat animal products in our diet.

The potato slims by virtue of its high bulk in relation to its kilojoule content. A plateful of spuds looks (and in the stomach, feels) a lot more substantial than it is.

The potato deceives the eye and the stomach because it is mostly water, held in place by the 2 per cent of fibre which makes up the cell walls.

Relative to its bulk, the energy supplied by the starch and small amount of protein in the potato is small. A medium-sized potato of 100 grams provides a mere 340 or so kilojoules (80 calories).

A sedentary male who needs about 11,000 kilojoules (2,700 calories) daily would have to sit down to well over a kilo of potatoes three times a day, if he had no other food.

If he wanted to lose weight, he could do so by reducing his intake of potatoes by about 600g — around 2000 kilojoules worth — and still feel well-satisfied.

Twenty-three Irishmen proved the point by adding 10 large potatoes (2kg) to their diet each day for three months. Even though they could eat whatever else they wanted, most of them lost weight.

The large volume of potatoes filled their stomachs and reduced their appetite for other, high-energy foods.

Few would have the heroism to eat, let alone peel, such a quantity of potatoes for breakfast, dinner and tea. Potatoes are, however, the cheap food that can best support life when there is no other food available.

Though the protein content is only about 2 per cent, it is of better value than many other plant proteins. Potatoes are a useful source of protein, especially when large quantities are eaten — 2kg — according to the calculations of *New Scientist* writer Colin Tudge, gives us the 40g of protein which the United Nations says is all we need each day.

As well as small amounts of minerals, vitamin B group and potassium, potatoes (especially when new) provide vitamin C. "A daily kilo even of the oldest taties would meet daily requirements for vitamin C," said Tudge.

The life-sustaining properties of potatoes are demonstrated by their history. Peasants could feed their families using only half as much land, if they put it down in potatoes instead of cereal crops. Their high energy yield per hectare meant doom to the peasants in Ireland, where potatoes ousted cereal crops and caused one of history's worst famines when blight ruined three years' harvests from 1845 to 1847.

Their earlier introduction to Europe, however, in the 17th and 18th centuries was a boon. Potatoes were used as an alternative crop when the cereal crop failed, and allowed populations to survive instead of being decimated by famine.

Added to these virtues, contemporary nutritionists have found that potatoes contain respectable amounts of dietary fibre.

Defined as the bits of plant cell walls which pass through the human alimentary tract undigested, fibre has been exalted from its former lowly status as roughage to become the cure-all of modern nutrition.

Potatoes, even without their skins and in spite of their floury middles, are very fibrous. More so than stringy vegetables like celery — a stringy texture is no indicator of fibre in the technical sense.

Potatoes are about 2.5 per cent fibre according to the figures of "fibre-man" Denis Burkitt, who toured New Zealand last year. While well below the 8.5 per cent fibre of wholemeal bread, potatoes, which most New Zealanders eat each day, make a small but consistent contribution of fibre to diets which are generally lacking in it.

Potatoes are holding their own in New Zealand, after nearly a century of declining consumption. In 1886 we ate around 450g a day. By the 1950s we were down to around 140g daily, and have remained more or less at this level.

The change is typical of the developed countries. As incomes rise, people spurn potatoes and cereals, the most valuable sources of starch and fibre, in favour of meat, dairy products and such luxuries.

The percentage of energy derived from carbohydrate falls, while that from fat rises.

Current nutritional wisdom is to cut down on high-protein, high-fat animal products and to increase starchy carbohydrates by eating more cereals, potatoes, fruit and vegetables.

Medical scientists hope (but have not proved) that such changes may improve our chances against the "diseases of opulence" — coronary heart disease, bowel disorders, diabetes and overweight for example.

Too bad about chips, the fat-laden form in which potatoes find favour with children and adults alike.

But there are chips and chips.

"You can fry potatoes to make chips without squandering all their nutritional merits," said Tudge. "If anything, the potato is too low in fat — and a modest dousing in poly-unsaturates need be no bad thing. But even modest quantities of fat add enormously to the calories — and so upset the potato's near-perfect protein-energy ratio."

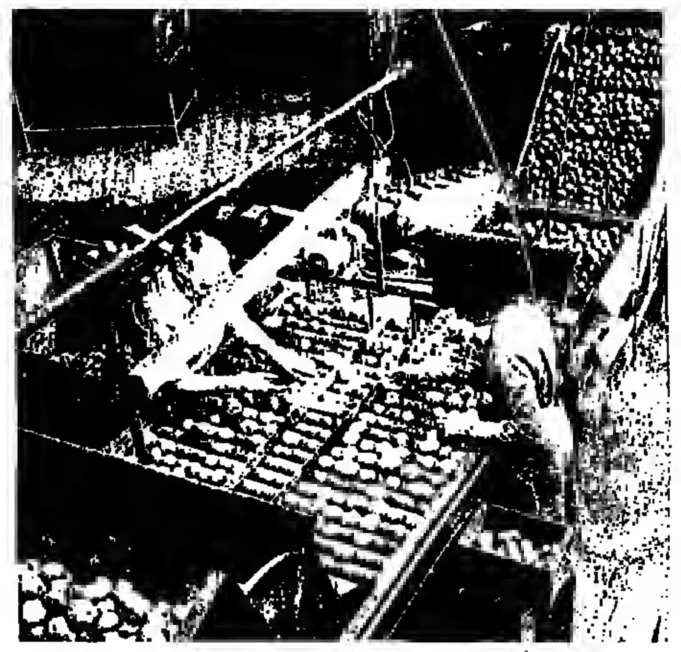
The size of the chip is crucial. Big ones with proportionately less surface area hold less fat. Roast spuds have twice the kilojoules of boiled ones. Average-sized chips have three times, and crisps or chippies a horrific six to seven times the kilojoules of the same weight of boiled potatoes.

There's more to potatoes than chips, however, and the New Zealand Potato Board has employed Alison Holst to help us get rid of our narrow roast-boiled-mashed-fried perceptions of potatoes.

Health-conscious New Zealanders who are ready to move the meat on their plates over in favour of a bigger helping of spud will benefit from another of the board's moves.

It has, for the first time, recommended minimum acceptable standards for packaged potatoes — an act which will be welcomed by all who have endured green, rotten, sprouting or ping-pong-sized potatoes among those in their sacks.

The drawback is that the standards are voluntary. But the board has peppered industry, retail and consumer sectors with information in its efforts to make average potato-eaters aware of what they should accept or reject.



Grading and packing the humble spud.

Ready for the marketplace

Profile

Public relations firm moves into the boardroom and tackles takeover battles on a team game strategy

by **Warren Berryman**

LIKE a hired gun in a white hat, Network Communicatinns Ltd rode in to help save Henderson snd Pollsrd from the unwanted embrace of Feltex. With Feltex gunned down by Fisher and Paykel and Carter Holt at a spectaculor high noon in the share market, Network rode off into the sunset putting the tenth notch into its gun.

Network — now also representing New Zealand Oil and Gas ss well — has been busy carving out a niche for itself in takeover battles. Clienta which have festured in recent takeover battles include Waitaki Industries (now Waitaki NZR), AB Consolidated, Ron Brierley and Bruce Judge, the Goodman Group, PPCS, Kempthorne Prosser, MSI, Jnhn Burns Ltd, and South British Insurance (now merged with NZI).

While some PR companies go firefighting in company trouble-spots or polish managing directors' images with puff pieces and pictures for regurgitation in the news media, Network demands and takes a plsce in the boardroom to discuss corporate strstegies.

Network directors see their company filling a specialist strstegic planning role in the corporate area – a role straddling that of PR consultant and management consultant.

Willing to pay top salaries to attract employees with better qualifications than those held by its own directors, Network is building up a strong team of people able to talk with top executives on equal terms.

The company has become increasingly involved as a communications arm for the stockbroking community. In the Goodman Group-Watties merger, Network was working with Wellington stockbrokers R A Jarden and Co as psrt of the Goodman team.

Network is now involved with another broking firm to pave the wsy for the NZ Oil and Gas public share float.

The company has offices in Auckland, Wellington, Christchurch and Los Angeles, but has a small client list — only 30 or so. Its growth ares, according to directors, John Hill and Grant Common, is in "providing in-depth work for existing clients."

Network recently turned down two publicly listed companies as clients "because we didn't see their activities to be in line with our view of New Zealand's growth strategy."

"We don't want to get the image of a company willing to rush in for one-off jobs," Common said. "We want clients that will stick with us for years."

But a five-year string of successful battles for and against takeovers and mergers is bringing new business to the company's doors.

Network's first takeover foray came through its client, Waitaki Industries. Its Wellington and Christchurch offices played a key role as Waitaki grew by taking over other freezing works, then eventually merged to become Waitaki NZR.

Then came work for Ron Brierley and AB Consolidated. Brierley's right-hand man, Bruce Judge, has used the Network team, both while he was with Brierley and later as corporate planning expert for H W Smith Ltd.

The Goodman Group-Watties merger brought Network into close working contact with the sharebroking fraternity, which is now beginning to think of using public relations as their American counterparts do.

Network's Auckland office is headed by John Hill, a former economic journalist who left broadcasting after eight years because he wanted to influence events rather than report them.

"I was covering things like National Development Conferences when I became unhappy with the business of just reporting," he said.

"Sometimes I quite literally wanted to climb across the reporter's bench and shake somebody and say 'that's insane, your thinking is crazy, you should be looking at it this way': As a journo, part of your role is to comment. But you feel you can't influence decisions as much as you'd like to."

Hill's reputation in takeover work began with the MSI defence against a bid from Ceramco.

The style established in the MSI defence, and largely copied in the John Burns defence, was an amalgam of corporate planning and journalistic techniques.

MSI directors defended their position with a rejection document wrapped up in a red cover screaming "NO" in eight-inch-high letters. Like a good news story, the document began with a conclusion understandable to anybody and wound up with the nitty-gritty detail for the dedicated number-cruncher.

Throughout the document, sub-headings advised shareholders, "don't sell," "do nothing."

"The appeal has to be to everyone from investment manager of a major institution right through to the proverbial little old lady," Hill said.

"The approach is exactly like a news story. The guts should come across very quickly."

"As a consultancy we're concerned with the effectiveness of communication. We still find companies sending out finely printed foolscap trying to tell the shareholder why he shouldn't sell. A shareholder is no different from anyone else. There is no reason why those boring pieces of material should be sent out.

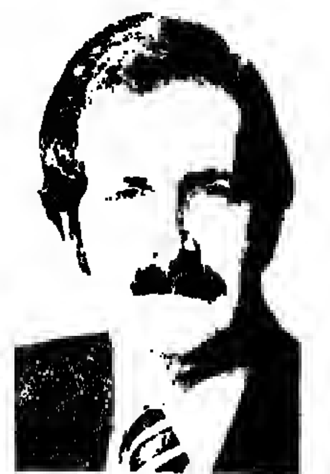
"The best advice to shareholders in a defence is to do nothing. Faced with a proxy form they are likely to think, 'gosh, I'd better fill it in — it looks offieiol'.

"The other trick in these things is to get your information out quickly. While the company making the bid is compiling and printing its documents we have as much of our defence prewritten as possible and stored on computer. But we have to wait till we see their final document in case there is aome subtlety of argument or little changes in the figurea or something like that."

Hill said succesa in the MSI takeover defence brought in new business and the snowball kept growing. "Cllenta come to us when they feel vulnerable or when a bid has aetually been made."

Companles might feel vulnerable becauae they haven't been dolng as much with ahareholders' assets as they should have. Doesn't Hill have any qualms about defending directors in such a situation?

Hill: "Directors sometimes feel they are doing good things. But they are not telling people



Grant Common . . . working "in-depth".

about these good things. We can't tell a company what to do with its assets. But we can advise them how to get the message across.

"We do find in the companies we've dealt with there are some good yarns the directors haven't bothered to communicate. And that, to my mind, is just as bad as not doing good things with their assets."

But in the case of a company which is asset-rich, with stodgy management, and a poor record for paying dividends, a takeover might be in the best interests of shareholders.

Hill: "It can be, if the takeover succeeds or not. The very act of going through a takeover has an incredible effect on the company.

"Every company we've dealt with has had a whole new attitude come to the board and staff. It's incredible the way it gets the staff going. We had one client whose staff went around with bumper stickers indicating they were not keen to be taken over."

"Some clients considered the takeover era a high point in staff morale. They got together as a team."

Like Londoners reminiscing fondly about the Blitz?

Hill: "Yes. It upsets me that this should be so. They should be able to communicate and maintain that motivation and teamwork."

Does Hill see a company as an entity in itself, with interests of its own, or as nothing more or less than an embodiment of the pluralistic interesta of its shareholders?

Hill: "I see a company as an entity."

So the interests of a company could be different — indeed conflict with — the interests of its shareholders?

Hill: "The entity includes shareholders interests together with staff and management interests. A company also has a social responsibility. It is what it does.

"That's the trouble with New Zealand today. Not enough componies realise they operate in a much wider environment than just direct responsibility to shareholders.

"I see a company as a living, breathing thing, rather than as something on a piece of legal paper."

But doesn't the analogy break down in the case of the managing director of a company who feels no pain when the shareholder doesn't get a dividend?

Hill: "But the managing director will know his shareholdera are unhappy. When it comes to recommendations to shareholders, boards will spend hours agonising over precisely what they say. I've never come across one that cynically says "screw you".

Take the company whose paternalistic directors say they will withhold dividenda and build up a fund for future expansion. Would Hill help the directors sell the shareholders on the idea that the directors knew shareholders' interests better than shareholders knew themselves?

Hill: "We continue to express our own attitudes and strategies. If we're not happy with the strategies adopted we won't accept the brief."

"New Zealand is too small to put up a guise. We're not too fond of apple-polishing just for the sake of it. There has to be some substance. In each exercise we look for the core of the substanee, and identify it strategically."

Would he advise clients who feel vulnerable to takeover to be more frank?

Hill: "Yes. Inevitably our reputation gets locked up in these things."

How does he work in a takeover situation?

Hill: "When a bid is announced we are instantly admitted to the board room and told what the situation is.

"Then a team develops, made up of ourselves, the chief executive, maybe one or two useful board members, and sometimes an outside consultant.

"The team then works out the strategy. Our role is to use publicity in a strong innovative way."

Network's contaets with the media and with the Henderson and Pollard team produced spectacular results in the recent defeat of Feltex's takeover bid.

The Henderson and Pollard team consisted of joint managing director Tony Coyte, the company secretary, John Kemp, Hill, stockbroker Geoff Clatworthy, and a Wellington consultant.

The dawn raid on the sharemarket by Fisher and Paykel had to be timed to the second. Without alerting Feltex, shareholders had to be told Fisher and Paykel would be standing in the market at the stroke of 10am to buy two million shares.

The *Dominion* and the *New Zealand Herald* were the first to be told — in time to print next morning's paper. As dawn rose on D Day, radio stations were let in on the secret.

It took Fisher and Paykel only half an hour's trading to pick up the first half million shares. By 11am Fisher and Paykel had its 40 per cent of Henderson and Pollard and Feltex was beaten.

Then next day saw more than 240,000 Henderson and Pollard shares go to an undisclosed buyer at the sky-high price of $6.

John Hill . . . teamwork

Profile

Housing

Urban renewal funds unspent

by **Jane Hllea-Smith**

ABOUT $3½ million of Government money for urban renewal wss unused by local authorities last year.

Housing Corporation town planner David Burt said local suthorities did not come forward to use the money.

Supporting the trend towsrds urban renewal over new construction, the Housing Corporation began the Community and Housing Improvement Programme (CHIP) two years ago. Neighbourhood Improvement Aress (NIA) were designated according to support by residents snd their local authority.

The amount of "lead time" involved from the initial approsch to residents, to the final approval by the Government and implementation mesnt that results were slow.

But this year the results are improving and the budget figure is rapidly approaching.

There are 17 approved NIAs, ranging in size from 32 houses in Palmerston North to 171 in Mount Albert, Auckland.

The latest to be approved is in Mount Victoria, Wellington, encompassing five streets and 141 residential buildings.

Two more NIAs are scheduled for announcement this month by Housing Minister Derek Quigley, in St Kilda, Dunedin, and in Westport.

The programme is hesvily reliant on participation by local authorities. If they do not tske advantage of the loans available, then there is little more the Housing Corporstion can achieve, and the money allowed for in the budget remains in the Government's coffers, as it did last year.

CHIP provides loans by the Government through the corporation for the "rehabilitation of existing housing stock."

The rehabilitation of houses is an important part of urban renewal, becsuse inflation and higher costs have slowed the building rate. In the past six years the construction of new houses has dropped from 35,000 to 15,000 a year. In these same years additions and alterations to existing houses hsve been rapidly climbing.

Since the programme began in 1979, CHIP spending has reached $8,846,518.

In the finsncial year ending 1980, $4,798,743 was spent nationally and in 1980-1981, $4,047,775 was spent. But these were well below the annual budget allowed by the Government of more than $7 million a year.

In this decade, there should be a significant rehabilitation of existing homes as the first houses of the 1940-1970 building boom reach the age where they need attention.